

Financial Report

2011-12



Message from Vice President for Finance and Chief Financial Officer M. Dwight Shelton Jr.



In fiscal year 2012, Virginia Tech started to recover from an extended period of budget reductions and began reinvestment in its academic and instructional programs. A strong operating and financial foundation, supported by our hard working employees, has

enabled the university to withstand \$74.7 million in reductions between fiscal years 2007 to 2012, and to continue to make progress on its strategic initiatives including expansion of several research initiatives and the delivery of a high quality educational experience to our students. The university is now positioned to invest in the goals established in the 2012 – 2018 university strategic plan.

The university concluded a comprehensive review of its long range strategic plan and in June, 2012 adopted “A Plan for a New Horizon”, the university strategic plan for 2012 – 2018. The strategic plan establishes the course of the university and lays down a broad framework that defines the challenges and opportunities presented by an evolving higher education environment. The strategic plan also identifies principal strategies to address the implications of a global environment, challenges of a data driven society, research expectations, and organizational efficiency and flexibility. While the plan reaffirms and establishes goals geared towards the academic, research, and student affairs programs, it serves as a guiding document for the financial areas to enable alignment of financial resources to meet the objectives of the strategic plans of the university.

The effective management of the university’s capital planning processes along with successful execution of this capital program is a critical element in achieving the university’s strategic goals. The university has for many years sustained a structured long-range capital planning process that allocates capital resources toward projects that further initiatives adopted in the strategic plan. In fiscal year 2012, the university’s active portfolio of capital improvements included thirty-eight projects with a total budget of \$834 million and \$162 million in expenditures for the year. A major portion of these expenditures related to ongoing construction of two significant capital projects – the Signature Engineering Building and the Center for the Arts. The engineering building is scheduled to open in spring 2014 with approximately 160,000 gross square feet of state-of-the-art engineering classrooms and instructional laboratories. The Center for the Arts, with approximately 150,000 gross square feet, is scheduled to open in fall 2013. The vision for the center is to elevate the overall educational experience of our students; as

a result, it includes the creation of a technological incubator, laboratory, and studio setting to explore the many intersections of art, science, and technology. Other significant capital projects include the completion of the Academic and Student Affairs building (Lavery Hall), which provides combined dining and classroom space, and the renovation of Ambler Johnston Hall, which transforms one of the largest residential facilities on campus to a modern-style honors program.

The university’s capital program is supported by prudent management of debt resources. The university has been successful in consistently managing to an internal guideline of a debt ratio below 5 percent, which is well within a state-mandated ratio of 7 percent. This active management of the university’s debt program, combined with the university’s liquidity, competitive pricing, and strong demand for enrollment, has resulted in a sustained strong credit rating. The university reported a debt ratio of 3.67 percent for fiscal year 2012, and its six-year forward looking capital and debt allocation planning process ensures capacity will be available in the future for high priority projects while managing the debt program within a 5 percent debt ratio.

The university strives to enhance the accessibility and affordability of a Virginia Tech education through careful management of tuition and fee rates, and through provision of financial aid programs. With a total cost (including room and board) of \$17,365 per year for Virginia undergraduates, Virginia Tech ranked 20th out of a group of 24 national public peer institutions in 2011-12. Thus, a Virginia Tech undergraduate degree continues to be a high value in comparison to the cost of peer institutions. Despite increasing costs, and reduced state resources to support those increasing costs, the university has worked diligently to moderate the rate of tuition increases.

The university continues to provide competitive financial aid to assist students’ accessibility to the university. The total grants, scholarships and waivers provided to students increased by 7 percent to \$185.4 million in 2012. The university continually examines the debt burden taken on by students to fund the cost of education and remains sensitive to this issue. In 2011, 52 percent of the university’s graduating class incurred an average of \$24,320 in student loan debt. In comparison, 66 percent of the Class of 2011 throughout the U.S. borrowed an average of \$26,600 in student loans.

While increases in tuition and fees have continued to be necessary to maintain the high quality of its academic programs, the university is focused on delivery of these resources to the academic programs. In fact, Virginia Tech allocated 85 percent of its tuition and mandatory fees to the instruction program, while only 15 percent goes to support its auxiliary business units, such as recreational sports, and its bus system.

Virginia Tech allocates a higher percentage of tuition and fees to instructional activities than any other public four-year institution in the commonwealth.

The university continues to expand the breadth and reach of its research programs through establishment of research centers and institutes within university operations or as related corporations. The National Tire Research Center is one such research organization. Established as a university related corporation, it seeks to develop a state-of-the-art vehicle dynamics complex that will address the research and testing needs of private industry while creating economic development opportunities in an economically depressed region of Virginia. The Virginia Tech Applied Research Corporation, another related corporation, seeks to obtain and execute applied research and development projects including the management of large-scale, inter-disciplinary research projects.

The university reported National Science Foundation research expenditures of \$450 million for fiscal year 2011 (most recent available data) which represents an increase of \$51.8 million or 13 percent from fiscal year 2010. This increase resulted in an improvement in the university's research ranking to 41st as compared to 47th in fiscal year 2010. The increase is attributable to increases in funding received from the Federal Recovery Act funds, federal grants and contracts, university support for research initiatives, and business and industry. As the projects funded through the Recovery Act near completion, the university anticipates reporting modest increases in overall research expenditures for fiscal year 2012.

The university's success in the growth of the research programs partly depends upon the enrollment of high caliber graduate students. To improve the competitive position of the university in attracting qualified graduate students, the university has progressively increased the stipend levels for students, provided supplemental funding to partially mitigate the impact of tuition increases, and worked to establish an appropriate graduate student health care program which is now fully implemented. These actions are consistent with university plans to further increase graduate enrollment.

Our endowment continues to provide flexible financial support for university initiatives and expand the financial aid resources to students. The value of the Virginia Tech Foundation's endowed assets as of June 30, 2012 was \$594.8 million. As measured against the Cambridge Associates peer group universe, the endowment's return for the year ranked in the top 42nd percentile. Over the last five years of difficult financial markets, the endowment outperformed the benchmark return and ranked in the top 16th percentile.

The university reported positive financial results for fiscal year 2012 and is poised to generate sufficient resources and strategically deploy existing resources to invest in its academic programs, support increased enrollments, and promote research enterprises. The university has \$266 million in

unrestricted net assets as of June 30, 2012, an increase of \$20 million, or 8.3 percent, over the previous year.

The higher education environment in the commonwealth continues along a path of collaborative accomplishment that was further bolstered by the passage of the Virginia Higher Education Opportunity Act of 2011 (also known as Top Jobs of the Twenty-first Century). The commonwealth has laid out broad and ambitious goals for Virginia's higher education institutions focused on enrollment growth, degree production in STEM-H (Science, Technology, Engineering, Mathematics and Health) disciplines, economic development, accessibility, research, and new incentivized funding models. Virginia Tech, with its established reputation as a top ranked institution in STEM programs, is well positioned to be a leader to further the commonwealth's higher education goals. The university graduated 3,127 graduates in STEM fields, 33 percent of the state's total STEM graduates from its four-year institutions in fiscal year 2011. The university continues to have the commonwealth's largest enrollment of students, with 31,342 full-time equivalent students in 2012.

As we report the financial results of fiscal year 2012, Virginia Tech and the higher education environment stands at the cusp of a fundamentally altered landscape defined by technological, economic, and global challenges and opportunities. The "Plan for a New Horizon" provides a carefully designed set of strategies to guide the university's response to these challenges and opportunities. The university's financial structure and resource strategies are well positioned to support the achievement of the university's academic initiatives.



M. Dwight Shelton Jr.

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Management's Responsibility for Financial Reporting and Internal Controls

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia Tech executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the university. Management believes the information is accurate in all material respects and fairly presents the university's revenues, expenses and changes in net assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2012.

The administration is responsible for establishing and maintaining the university's system of internal controls. Key elements of the university's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the Office of the University Controller; a growing management services segment; and an extensive internal audit function. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the university's system provides reasonable, but not absolute, assurances that assets are safeguarded from unauthorized use or disposition, and accounting records are sufficiently reliable to permit preparation of financial statements and appropriate accountability for assets and liabilities.

The Finance and Audit Committee of the Virginia Tech Board of Visitors reviews and monitors the university's financial reporting and accounting practices. The committee meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The committee also meets with internal auditors and university financial officers at least quarterly. These meetings include a review of the scope, quality and results of the internal audit program, and a review of issues related to internal controls and quality of financial reporting.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and the report thereon appears on the facing page. The APA examination includes a study and evaluation of the university's system of internal controls, financial systems, policies and procedures. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2012.



M. Dwight Shelton Jr.
Vice President for Finance and Chief Financial Officer



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 26, 2012

The Honorable Robert F. McDonnell, Governor of Virginia

The Honorable John M. O'Bannon, III, Chairman, Joint Legislative Audit and Review Commission

Board of Visitors, Virginia Polytechnic Institute and State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Virginia Polytechnic Institute and State University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the University's fiscal year 2011 financial statements, and in our report dated November 17, 2011, we expressed an unqualified opinion on the respective financial statements of the University.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Virginia Polytechnic Institute and State University. The consolidating schedules and affiliated corporations' financial highlights are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The consolidating schedules and affiliated corporations' financial highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis (Unaudited)

Virginia Polytechnic Institute and State University, popularly known as Virginia Tech, is a comprehensive, land-grant university located in Blacksburg, Virginia. The university offers 195 graduate, undergraduate and professional degree programs through its eight academic colleges (Agriculture and Life Sciences, Architecture and Urban Studies, Engineering, Liberal Arts and Human Sciences, Natural Resources and Environment, Pamplin College of Business, Science and the Virginia-Maryland College of Veterinary Medicine).

Virginia Tech has evolved into a position of increasing national prominence since its founding in 1872, consistently ranking among the nation's top universities for undergraduate and graduate programs. The university's research program was ranked 47th among the top research institutions in the United States by the National Science Foundation in its latest survey measuring annual research expenditures.

The university is an agency of the Commonwealth of Virginia, and therefore included as a component unit in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The 14 members of the Virginia Tech Board of Visitors govern university operations. Members of the board are appointed by the Governor of Virginia.

Overview

This unaudited *Management's Discussion and Analysis (MD&A)* is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions and conditions. This discussion includes an analysis of the university's financial condition and results of operations for the fiscal year ended June 30, 2012. Comparative numbers are included for

the fiscal year ended June 30, 2011. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying basic financial statements, including notes and other supplementary information. The university's management is responsible for all of the financial information presented, including this discussion and analysis.

The university's financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. The three required financial statements are the *Statement of Net Assets* (balance sheet), the *Statement of Revenues, Expenses and Changes in Net Assets* (operating statement), and the *Statement of Cash Flows*. These statements are summarized and analyzed in the following sections. Combining schedules included in *Supplementary information* indicate how major fund groups were aggregated to arrive at the single column totals on the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets*.

Using criteria provided in GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14, the university's eight affiliated corporations were evaluated on the nature and significance of their relationship to the university. The Virginia Tech Foundation Inc. (VTF or 'the foundation') and Virginia Tech Services Inc. (VTS) were determined to be component units and are presented in a separate column on the university's financial statements. VTF serves the university by generating significant funding from private sources and aggressively managing its assets to provide supplemental funding to the university. VTS operates the university bookstores and provides other services for the use and benefit of students, faculty and staff. The foundation and VTS

are not part of this *MD&A*, but detail regarding their financial activities can be found in Note 23 of the *Notes to Financial Statements*. Transactions between the university and these component units have not been eliminated in this year's financial statements.

The following GASB statements of standards became effective in fiscal year 2012: Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* and Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. Statements 57 and 64 do not require additional disclosures by the university as a result of operations during this period.

Statement of Net Assets

The *Statement of Net Assets* (SNA) presents the assets, liabilities and net assets of the university as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the university's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the university. It also allows readers to determine how much the university owes to vendors, investors and lending institutions. Finally, the SNA provides a picture of net assets and their availability for expenditure by the university. Sustained increases in net assets over time are one indicator of the financial health of the organization.

The university's net assets are classified as follows:

- **Invested in capital assets** — Invested in capital assets, net of related debt, represent the university's total investment in capital assets, net of accumulated depreciation, amortization and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- **Restricted net assets, expendable** — Expendable restricted net assets include resources the university is legally or

contractually obligated to expend, with restrictions imposed by external third parties. These assets partially consist of quasi-endowments totaling \$51.6 million. The investment of quasi-endowments is managed by VTF.

• **Restricted net assets, nonexpendable**

— Nonexpendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal. The university's nonexpendable endowments of \$0.4 million are included in its column on the SNA.

• **Unrestricted net assets** — Unrestricted net assets represent resources used for transactions relating to academic departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose in support of the university's primary missions of instruction, research and outreach. These resources are derived from student tuition and fees, state appropriations, recoveries of facilities and administrative (indirect) costs and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty and staff. Some examples of the university's auxiliaries are intercollegiate athletics and student residential and dining programs.

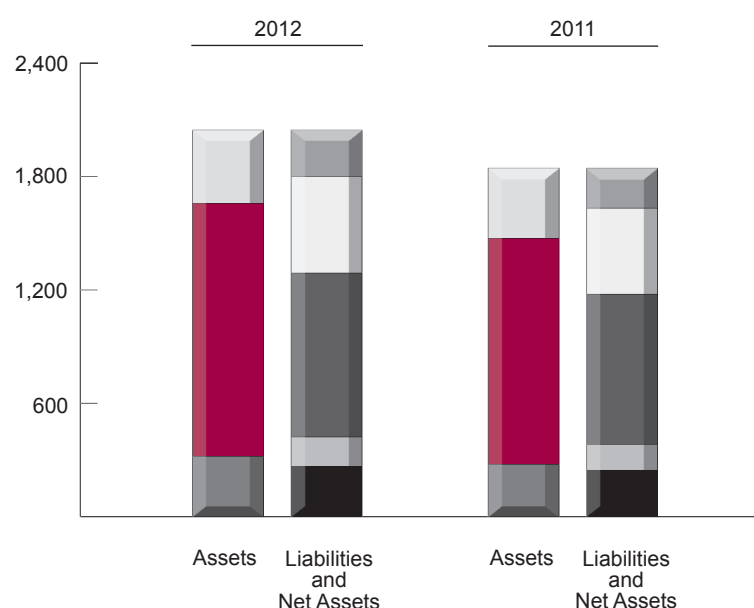
Total university assets increased by \$201.7 million or 10.9% during fiscal year 2012, bringing the total to \$2,046.0 million at year-end. Growth in current assets and the major components of noncurrent assets (capital assets and long-term investments) accounted for the majority of the increase to total assets. The largest net increase in current assets was in the cash and cash equivalents (\$16.6 million) category. This increase was partially offset by a net reduction in accounts receivables. The

Assets, Liabilities and Net Assets

For the years ended June 30, 2012 and 2011

(all dollars in millions)

	2012	2011	Change	
			Amount	Percent
Current assets	\$ 388.9	\$ 372.5	\$ 16.4	4.4%
Capital assets, net	1,339.5	1,196.6	142.9	11.9%
Other assets	317.6	275.2	42.4	15.4%
Total assets	2,046.0	1,844.3	201.7	10.9%
Current liabilities	246.1	212.0	34.1	16.1%
Noncurrent liabilities	511.0	455.4	55.6	12.2%
Total liabilities	757.1	667.4	89.7	13.4%
Invested in capital assets, net	867.3	794.6	72.7	9.1%
Restricted	156.0	137.0	19.0	13.9%
Unrestricted	265.6	245.3	20.3	8.3%
Total net assets	\$ 1,288.9	\$ 1,176.9	\$ 112.0	9.5%



increase in capital assets, net (\$142.9 million) reflects the ongoing construction of university research and instructional facilities and the capitalization of completed facilities discussed in detail in the following section, Capital Asset and Debt Administration. The increase in noncurrent cash and cash equivalents (\$25.0 million) reflects unspent funding for on-going capital asset construction. Additionally, the long-term investments category increased \$17.7 million. These increases in noncurrent assets are included in the other assets category of the Assets, Liabilities and Net Assets chart above.

Total university liabilities grew by \$89.7 million or 13.4% during fiscal year 2012. The current liabilities category increased \$34.1 million and the noncurrent liabilities category increased \$55.6 million. The majority of the growth in current liabilities was in the commercial paper (\$12.4 million), accounts payable (\$10.0 million) and retainage payable (\$3.3 million) categories, as well as the current portion of long-term debt (\$2.5 million) due to the university's continued investment in capital assets. Growth in the noncurrent liabilities category mainly resulted from net additions to long-term debt (\$54.2

million). For more detailed information, see the Capital Asset and Debt Administration section.

The increase in total assets was greater than the corresponding increase in total liabilities, thus improving the university's net asset position by \$112.0 million (9.5%). Net assets in the categories of invested in capital assets — net of related debt, unrestricted assets and restricted assets increased \$72.7 million, \$20.3 million and \$19.0 million respectively. This reflects the university's continued investment in new facilities and equipment in support of the university's missions as well as prudent management of the university's fiscal resources.

Capital Asset and Debt Administration

One of the critical factors in ensuring the quality of the university's academic, research and residential life functions is the development and renewal of its capital assets. The university continues to maintain and upgrade current structures as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serves to enrich high-quality instructional programs, residential lifestyles and research activities.

Note 8 of the *Notes to Financial Statements* describes the university's significant investment in depreciable

capital assets with gross additions of \$107.3 million during fiscal year 2012. The completion of the Hampton Technology Research & Innovation Center (\$10.5 million), the Visitors and Undergraduate Admissions Center (\$10.3 million), the Infectious Disease Research facility (\$7.9 million) and significant renovations to the West End Market dining facility (\$6.5 million) were the major projects included in the \$56.3 million additions to buildings this fiscal year. Ongoing investments in instructional, research and computer equipment totaled \$43.8 million. Depreciation and amortization expense related to capital assets was \$77.2 million with net asset retirements of \$1.9 million. The net increase in depreciable capital assets for this period was \$28.2 million. The net increase in nondepreciable capital assets (\$114.7 million) resulted primarily from construction in progress, reflecting the on-going construction of the Center for the Arts (\$24.1 million), Lavery Hall (\$20.6 million), the Ambler Johnston Hall renovation (\$19.9 million), the Signature Engineering building (\$19.0 million), the build-out of the Virginia Tech Carilion Research Institute third floor (\$15.5 million) and the Veterinary Medicine Instruction addition (\$8.5 million). Proceeds from the sale of commercial paper were used to provide temporary funding for some of the projects under construction.

The majority of this temporary financing will be replaced with permanent debt through the issuance of long-term bonds and long-term notes.

Noncurrent liabilities sustained a net increase of \$55.6 million during fiscal year 2012. The majority of the net increase in noncurrent liabilities resulted from the issuance of debt for ongoing construction of the Signature Engineering building (\$26.1 million), the Center for the Arts (\$19.4 million), the Ambler Johnston Hall renovation project (\$18.9 million) and the Chiller Plant (\$7.5 million). The increase in noncurrent liabilities was partially offset by the reclassification of long-term debt from the noncurrent to current liabilities category. See Note 12 of the *Notes to Financial Statements* for more details.

The educational and general (E&G) portion of the university's capital outlay program represents nine projects currently in various stages of completion. Three of the largest projects in this category are the Center for the Arts (\$100.1 million), the Signature Engineering building (\$95.2 million) and the Human & Agriculture Biosciences Building I (\$53.8 million). In addition to the capital projects underway, there were several new construction and renovation projects approved for instructional and research facilities. The larger of the approved new construction projects are the design phases for the

Funding for Authorized Current and Future Capital Projects

As of June 30, 2012

(all dollars in millions)

	State Funds (1)	Other Funds (2)	University Debt Issued Before June 30, 2012	University Debt To Be Issued After June 30, 2012	Total Funding	Cash Basis Project-To-Date Expenses
Current education and general	\$ 202.1	\$ 83.4	\$ 133.4	\$ -	\$ 418.9	\$ 177.1
Current auxiliary enterprise	-	25.7	75.0	12.0	112.7	72.5
Total current	202.1	109.1	208.4	12.0	531.6	249.6
Future education and general	-	4.9	-	12.0	16.9	1.0
Future auxiliary enterprise	-	0.5	-	86.9	87.4	0.2
Total future	-	5.4	-	98.9	104.3	1.2
Total authorized	\$ 202.1	\$ 114.5	\$ 208.4	\$ 110.9	\$ 635.9	\$ 250.8

(1) Includes the general fund, capital appropriations and the general obligation bonds of the Commonwealth of Virginia

(2) Includes private gifts, auxiliary surpluses, student fees and other customer revenues.

relocation of agriculture programs (\$1.0 million) and the new propulsion laboratory (\$0.4 million). The Commonwealth of Virginia will provide partial funding for several of these E&G projects.

The university's auxiliary enterprises have approval for five new capital projects. These future capital projects include a new residence hall, an indoor athletic training facility and the phase IV expansion of the Oak Lane housing community. Since auxiliaries are required to be self-supporting, no state general funds or capital appropriations are provided for these projects.

The projects have been or will be funded from a combination of private gifts, federal funds, student fees, other customer revenues and debt financing.

Virginia Tech had a total authorization of \$635.9 million in capital building projects as of June 30, 2012, requiring approximately \$110.9 million in additional debt financing.

Capital projects in progress carried commitments to construction contractors, architects and engineers totaling \$165.8 million at June 30, 2012. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. The majority of the financial commitment is attributed to four projects; the Signature Engineering building (\$46.1 million), the Center for the Arts (\$38.5 million), the Human & Agriculture Biosciences Building I (\$37.8 million) and the Davidson Hall renovation (\$22.0 million). These commitments represent only a portion of the university's capital projects currently under construction or authorized by the commonwealth.

The university's bond ratings of Aa1 and AA from Moody's and Standard & Poor's, respectively, reflect strong student demand, balanced operating performance and adequate reserves to address unforeseen expenses.

Revenues, Expenses and Changes in Net Assets

For the years ended June 30, 2012 and 2011

(all dollars in millions)

	2012	2011	Change	
			Amount	Percent
Operating revenues	\$ 832.4	\$ 780.7	\$ 51.7	6.6 %
Operating expenses	1,076.3	1,025.5	50.8	5.0 %
Operating loss	(243.9)	(244.8)	0.9	0.4 %
Non-operating revenues and expenses	279.3	324.2	(44.9)	(13.8)%
Income before other revenues, expenses, gains or losses	35.4	79.4	(44.0)	(55.4)%
Other revenues, expenses, gains or losses	76.6	48.8	27.8	57.0 %
Increase in net assets	112.0	128.2	(16.2)	(12.6)%
Net assets - beginning of year	1,176.9	1,048.7	128.2	12.2 %
Net assets - end of year	\$ 1,288.9	\$ 1,176.9	\$ 112.0	9.5 %

Statement of Revenues, Expenses and Changes in Net Assets

Operating and non-operating activities creating changes in the university's total net assets are presented in the *Statement of Revenues, Expenses and Changes in Net Assets*, found on page 15. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the university. Operating expenses are expenditures made to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the missions of the university. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not directly provided. Included in this category are state appropriations and gifts which supplement the payment of operating expenses of the university and support student scholarships. Therefore, the university, like most public institutions, expects to show an operating loss.

Operating Revenues

Total operating revenues increased by \$51.7 million or 6.6% from the prior fiscal year. The growth in operating revenues came primarily from two categories: student tuition and fees, and auxiliary enterprises. The increase in student tuition and fees (\$26.1 million or 8.4%) was expected given an increasing student population and the rise in both in-state and out-of-state tuition and fees rates. The growth in auxiliary enterprise operating revenue (\$14.6 million or 7.8%) resulted primarily from increased student fees (\$7.1 million), athletic conference revenue (\$4.7 million) and public utility sales (\$1.5 million).

The remaining notable net revenue increase occurred in the grants and contracts category (\$9.8 million or 3.7%). Grants and contracts revenue grew significantly from three sources: the expansion of commercial sponsors of university research (\$6.7 million), federal appropriations supporting the university's land grant mission (\$4.0 million) and an increase in federal grants and contracts (\$1.2 million). The increase in the grants and contracts category was partially offset by the reduction of federal funds (\$2.1 million) provided through the *American Recovery and Reinvestment*

Act (ARRA). Overall, the university's operating revenues increased to \$832.4 million in fiscal year 2012, compared to \$780.7 million in fiscal year 2011.

Non-operating and Other Revenues and Expenses

Non-operating revenue and expenses totaled \$279.3 million, a decrease of \$44.9 million from the previous year's total. Revenue reductions in this category result primarily from declining state appropriations (\$19.2 million), reduction in federal fiscal stabilization

funding (\$19.0 million) and lower returns on investments (\$9.0 million) partially offset by increased private gifts (\$4.9 million).

Total other revenue, expenses, gains and losses increased by \$27.8 million compared to the prior year. The ongoing construction of capital projects funded from the 21st Century bond program (\$17.9 million) and the Central Maintenance Reserve program (\$8.9 million) accounted for the majority of the increase to revenue in this category.

Revenues from all sources (operating, non-operating and other) for fiscal year 2012 totaled \$1,188.3 million, increasing by \$34.6 million from the prior year. Operating expenses (shown in the charts on the facing page) totaled \$1,076.3 million for fiscal year 2012, reflecting a year-over-year increase of \$50.8 million. Total revenues, shown in the chart below, less total operating expenses resulted in an increase to net assets of \$112.0 million.

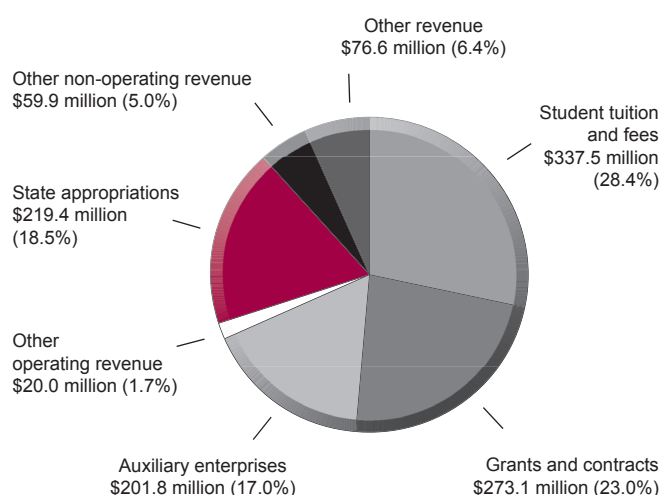
Increase (Decrease) in Revenue

For the years ended June 30, 2012 and 2011
(all dollars in millions)

	2012	2011	Change	
			Amount	Percent
Operating revenue				
Student tuition and fees, net	\$ 337.5	\$ 311.4	\$ 26.1	8.4 %
Grants and contracts	273.1	263.3	9.8	3.7 %
Auxiliary enterprises	201.8	187.2	14.6	7.8 %
Other operating revenue	20.0	18.8	1.2	6.4 %
Total operating revenue	832.4	780.7	51.7	6.6 %
Non-operating revenue				
State appropriations	219.4	238.6	(19.2)	(8.0)%
Other non-operating revenue*	59.9	85.6	(25.7)	(30.0)%
Total non-operating revenue	279.3	324.2	(44.9)	(13.8)%
Other revenue				
Capital grants and gifts	77.9	50.4	27.5	54.6 %
Loss on disposal of capital assets	(1.3)	(1.6)	0.3	18.8 %
Total other revenue	76.6	48.8	27.8	57.0 %
Total revenue	\$ 1,188.3	\$ 1,153.7	\$ 34.6	3.0 %

Total Revenue by Source

For the year ended June 30, 2012



*Includes gifts, investment income, interest expense on debt related to capital assets, federal PELL grants, federal ARRA stabilization funds and other non-operating revenue.

Total Expenses

The university is committed to recruiting and retaining outstanding faculty and staff. The personnel compensation package is one way to successfully compete with peer institutions and nonacademic employers. The natural expense category, compensation and benefits, comprises \$661.5 million or 61.5% of the university's total operating expenses. This category increased by \$23.3 million (3.7%) over the previous year. Generally, changes to expenses in this category come from three sources: increases/reductions in the number of personnel, annual salary increases and the general trends in the costs of fringe benefits. A general salary increase to

offset the impact of shifting the VRS 5% employee share of retirement costs to the employee was implemented early in fiscal year 2012. Additionally, the in-band adjustment process and growth in personnel contributed to the overall increase in salary expense. A second category with a significant increase over the prior year was supplies and materials (\$8.7 million). This was attributed primarily to the growth in materials used by the operations and maintenance function (\$5.3 million) to complete maintenance deferred from fiscal year 2011. The last category with significant growth was depreciation and amortization expense (\$10.8 million) reflecting

the additions to capital assets, primarily buildings and moveable equipment.

Operating expenses for fiscal year 2012 totaled \$1,076.3 million, up \$50.8 million from fiscal year 2011. The net change resulted from moderate increases to expenses in the functional categories of instruction (\$10.0 million), research (\$8.8 million), operations and maintenance (\$14.4 million) and depreciation and amortization expense (\$10.8 million). Salaries, wages and fringe benefits account for the majority of the expense increase in the instruction and research categories. The increases to depreciation and amortization expense were explained in the previous

Increase (Decrease) in Expenses by Natural Classification

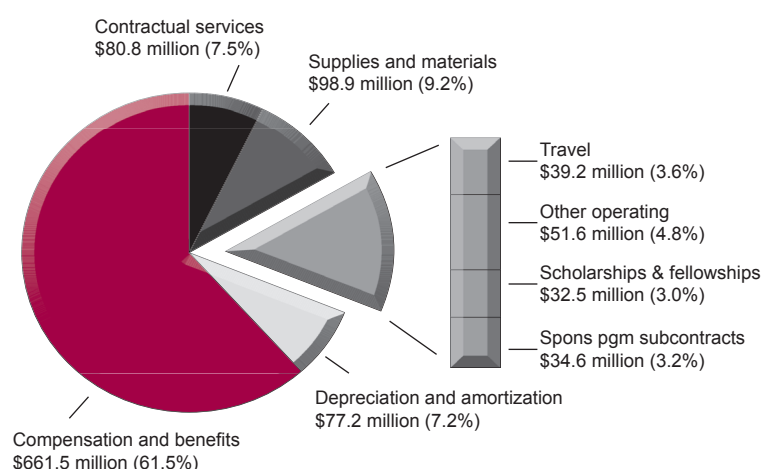
For the years ended June 30, 2012 and 2011

(all dollars in millions)

	2012	2011	Change	
			Amount	Percent
Compensation and benefits	\$ 661.5	\$ 638.2	\$ 23.3	3.7 %
Contractual services	80.8	81.8	(1.0)	(1.2)%
Supplies and materials	98.9	90.2	8.7	9.6 %
Travel	39.2	34.9	4.3	12.3 %
Other operating expenses	51.6	49.3	2.3	4.7 %
Scholarships and fellowships	32.5	32.3	0.2	0.6 %
Sponsored program subcontracts	34.6	32.4	2.2	6.8 %
Depreciation and amortization	77.2	66.4	10.8	16.3 %
Total operating expenses	\$ 1,076.3	\$ 1,025.5	\$ 50.8	5.0 %

Total Expenses by Natural Classification

For the year ended June 30, 2012



paragraph, increases to operations and maintenance are discussed below.

The auxiliary enterprises category sustained a net decrease in total expenses, the result of recoveries received for services (\$11.6 million increase) exceeding the increased costs (\$9.2 million) of providing the services to students, faculty and staff.

The largest percentage growth in operating expenses was in the operations and maintenance category (26.2%). The largest expense increase (\$6.3 million) in this category was in facility rents, primarily from new operating leases in the Corporate Research Center and Virginia Tech Research Center - Arlington. In

addition, compensation and building repairs and maintenance increased \$4.2 million and \$5.5 million respectively. These increases were partially offset by cost reductions across all functional areas.

In the functional categories for support activities, there were moderate increases in academic support and institutional support of \$3.8 million and \$1.2 million respectively. The increase reflects rising costs across all expense categories.

The largest percentage decrease was in the student financial assistance category (8.4%). The reduction in student financial assistance (\$1.2 million)

for fiscal year 2012 may be somewhat misleading. The net student financial assistance expense represents the amount of institutional resources refunded to the student in excess of tuition and fees, not the gross amount of financial aid provided by the university. The decrease in net expenses was actually due to increased waivers and scholarships provided to students, reflected in the \$5.2 million growth in scholarship discounts and allowances (from \$95.4 million to \$100.6 million) which netted against the gross total of financial aid expenses.

In summary, the university's operating revenues grew by \$51.7 million or 6.6% over the preceding year, while

Increase (Decrease) in Expenses by Function

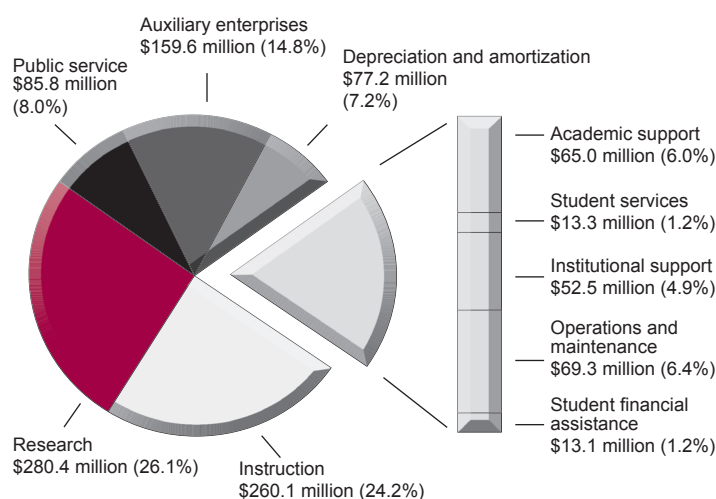
For the years ended June 30, 2012 and 2011

(all dollars in millions)

	2012	2011	Change	
			Amount	Percent
Instruction	\$ 260.1	\$ 250.1	\$ 10.0	4.0 %
Research	280.4	271.6	8.8	3.2 %
Public service	85.8	80.0	5.8	7.3 %
Auxiliary enterprises	159.6	162.0	(2.4)	(1.5)%
Depreciation and amortization	77.2	66.4	10.8	16.3 %
Subtotal	863.1	830.1	33.0	4.0 %
Support, maintenance, other				
Academic support	65.0	61.2	3.8	6.2 %
Student services	13.3	13.7	(0.4)	(2.9)%
Institutional support	52.5	51.3	1.2	2.3 %
Operations and maintenance of plant	69.3	54.9	14.4	26.2 %
Student financial assistance*	13.1	14.3	(1.2)	(8.4)%
Total support, maintenance, other	213.2	195.4	17.8	9.1 %
Total operating expenses	\$ 1,076.3	\$ 1,025.5	\$ 50.8	5.0 %

Total Expenses by Function

For the year ended June 30, 2012



*Includes loan administrative fees and collection costs.

operating expenses increased by \$50.8 million or 5.0%. This resulted in a smaller operating loss for the current fiscal year (\$243.9 million) in comparison to the operating loss (\$244.8 million) generated during the past year. The primary reason for the decrease in the operating loss was the growth in revenues across all major operating areas with the largest increases in the student tuition and fees and the auxiliary enterprises operating areas. State appropriations, federal ARRA stabilization funds and other net non-operating revenues were used to meet operating expenses not offset by operating revenues.

Statement of Cash Flows

The *Statement of Cash Flows* presents detailed information about the cash activity of the university during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses and Changes in Net Assets* (SRECNA). This difference occurs

because the SRECNA is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

The statement is divided into five sections. The first section, *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by operating activities of the university. The *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. *Cash flows from capital and related financing activities* presents cash used for the acquisition and construction of

capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities. *Cash flows from investing activities* reflect the cash flows generated from investments which include purchases, proceeds and interest. The last section reconciles the operating income or loss reflected on the *Statement of Revenues, Expenses and Changes in Net Assets* for fiscal year 2012 to net cash used by operating activities.

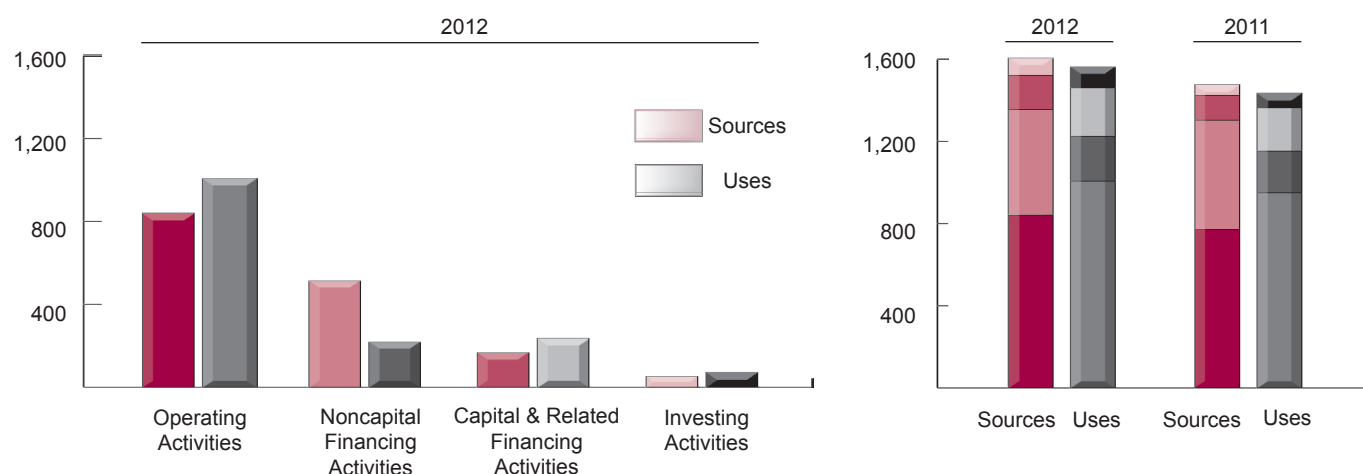
Major operating activity sources of cash for the university included student tuition and fees (\$337.8 million), grants and contracts revenue (\$258.9 million) and auxiliary enterprise revenues (\$206.6 million). Major operating activity uses of cash included compensation and benefits (\$656.5 million) and operating expenses (\$333.7 million). Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of

Summary of Cash Flows

For the years ended June 30, 2012 and 2011
(all dollars in millions)

Net cash used by operating activities	\$ (165.1)	\$ (178.4)	\$ 13.3	7.5 %
Net cash provided by noncapital activities	295.3	328.5	(33.2)	(10.1)%
Net cash used by capital and related financing activities	(70.9)	(90.3)	19.4	21.5 %
Net cash used by investing activities	(17.8)	(19.0)	1.2	6.3 %
Net increase in cash and cash equivalents	41.5	40.8	0.7	1.7 %
Cash and cash equivalents - beginning of year	388.7	347.9	40.8	11.7 %
Cash and cash equivalents - end of year	\$ 430.2	\$ 388.7	\$ 41.5	10.7 %

	2012	2011	Change	
			Amount	Percent
Net cash used by operating activities	\$ (165.1)	\$ (178.4)	\$ 13.3	7.5 %
Net cash provided by noncapital activities	295.3	328.5	(33.2)	(10.1)%
Net cash used by capital and related financing activities	(70.9)	(90.3)	19.4	21.5 %
Net cash used by investing activities	(17.8)	(19.0)	1.2	6.3 %
Net increase in cash and cash equivalents	41.5	40.8	0.7	1.7 %
Cash and cash equivalents - beginning of year	388.7	347.9	40.8	11.7 %
Cash and cash equivalents - end of year	\$ 430.2	\$ 388.7	\$ 41.5	10.7 %



(The graphs above demonstrate the relationship between sources and uses of cash. The graph on the left shows activity for fiscal year 2012 only, grouped by related sources and uses of cash, while the graph on the right displays that same activity for fiscal years 2012 and 2011 in a stacked format.)

state appropriations (\$218.0 million) and gifts (\$53.8 million) as noncapital financial activities.

Economic Outlook

The university, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. The commonwealth currently supports 19% of the university's budget through general fund appropriations. Building on the *Virginia Higher Education Opportunity Act* passed in 2011, the 2012 Legislative Session continued reinvestment into higher education for the 2012-14 biennium. While the Commonwealth of Virginia maintained the university's board of visitors' authority to establish tuition and fee rates, significant emphasis was placed on slowing the rate of increase in the tuition rate for Virginia undergraduate students. The governor has indicated an interest in further investment in higher education, but the university anticipates there will be continued pressure on general fund support from the state given the demands on the state budget and constrained state revenues.

The university continues to work with the Higher Education Advisory Commission to enact the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment and financial planning process defined by this legislation has potential implications for future state support and tuition rates. The commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased STEM-H (science, technology, engineering, mathematics and health) degree completion. Virginia Tech is well positioned in terms of this goal due to the university's current designation as the largest producer of STEM graduates in the commonwealth.

The university is closely watching the federal budget process unfold as this holds potential implications for the economy, as well as university program funding such as externally sponsored research, land grant activities and student

financial aid. The university continues to employ cost containment and income enhancement techniques which have helped to successfully advance the institution in the past. In addition, the university will continue to employ strategic planning processes to achieve its core missions of instruction, research and public service. The university just updated its vision for the future by completing a new long range plan covering fiscal years 2012 through 2018.

Virginia Tech, along with all other Virginia institutions of higher education, continues to maintain significant decentralized authority from the Commonwealth of Virginia through the requested restructuring of higher education. Restructuring provides additional flexibility and authority to the participant institutions with the potential for increased efficiencies and cost savings. The university works to leverage existing authorities to drive efficiencies for cost savings. The university is actively engaged in discussions with the Higher Education Advisory Commission which has consideration of additional restructuring on its agenda.

The university has managed its exposure to risk through the implementation of its investment policy. The university's investment policy, established by the board of visitors and monitored by the board's Finance and Audit Committee, requires that its public funds be invested in accordance with the *Investment of Public Funds Act*, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. The university has limited its investment in securities outside the scope of the *Investment in Public Funds Act* to restricted gift funds, local funds and nongeneral fund reserves and balances designated by management as quasi-endowments. These funds are invested in the Virginia Tech Foundation's consolidated endowment fund and managed in accordance with the provisions of the *Uniform Prudent Management of Institutional Funds Act* (Section 55-268.11 et seq). At the end of the fiscal year, the value of the university's quasi-endowments invested in

the foundation totaled \$52.8 million, an increase of \$0.1 million over the preceding year.

The university continually monitors the valuation of its investments. At September 30, 2012 the market value for the university's non-endowed cash, cash equivalents and investments totaled \$544.5 million including unrealized gains on investments of \$0.8 million, as compared to the market value of its investments at June 30, 2012 of \$465.6 million and unrealized gains of \$0.6 million.

Executive management believes the university will maintain its solid financial foundation and is well positioned to continue its excellence in teaching, research and public service. Management's policies of cost containment and investing in strategic initiatives will ensure the university is well prepared to manage the changing environment of higher education while continuing to grow and expand. The financial position of the university is strong as evidenced by its diversified portfolio of research funding, National Science Foundation research ranking, strong student demand from increasingly talented students, auxiliary enterprises with high customer satisfaction, low total cost of attendance, growing contributions to endowments, increased liquidity and quality debt ratings from Moody's (Aa1) and Standard and Poor's (AA). These debt ratings allow the university to obtain funding for capital projects with advantageous terms.

The university is grounded by an impressive community of students, faculty and staff. Virginia Tech's future is bright as the commonwealth's largest university offering more career options than any other Virginia university.

The university's overall financial position remains strong. Management continues to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and sustain its current high quality financial position.

Financial Statements

Statement of Net Assets

As of June 30, 2012, with comparative financial information as of June 30, 2011

(all dollars in thousands)

	2012		2011	
	Virginia Tech	Component Units	Virginia Tech	Component Units
Assets				
Current assets				
Cash and cash equivalents (Note 4)	\$ 288,919	\$ (8,571)	\$ 272,367	\$ (11,766)
Short-term investments (Notes 4, 23)	2,410	7,854	2,228	14,896
Accounts and contributions receivable, net (Notes 1, 5, 23)	53,535	21,223	57,414	29,780
Notes receivable, net (Note 1)	1,743	2,169	1,817	401
Due from Commonwealth of Virginia (Note 9)	10,885	-	9,449	-
Inventories	15,313	6,415	12,998	7,018
Prepaid expenses	16,048	977	16,248	725
Other assets	-	3,021	-	2,967
Total current assets	<u>388,853</u>	<u>33,088</u>	<u>372,521</u>	<u>44,021</u>
Noncurrent assets				
Cash and cash equivalents (Note 4)	141,268	60,748	116,306	49,185
Due from Commonwealth of Virginia (Note 9)	4,157	-	3,279	-
Accounts and contributions receivable, net (Notes 1, 5, 23)	3,918	65,873	4,938	57,728
Notes receivable, net (Note 1)	13,771	25,624	13,225	17,033
Net investments in direct financing leases	-	22,187	-	23,165
Irrevocable trusts held by others, net	-	8,762	-	8,899
Long-term investments (Notes 4, 23)	152,403	711,379	134,723	706,474
Depreciable capital assets, net (Notes 8, 23)	1,032,837	173,350	1,004,639	175,063
Nondepreciable capital assets (Notes 8, 23)	306,722	115,269	191,984	80,346
Intangible assets, net	-	637	-	676
Other assets	2,068	4,893	2,686	4,351
Total noncurrent assets	<u>1,657,144</u>	<u>1,188,722</u>	<u>1,471,780</u>	<u>1,122,920</u>
Total assets	<u>2,045,997</u>	<u>1,221,810</u>	<u>1,844,301</u>	<u>1,166,941</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 6)	141,786	15,987	125,549	12,796
Accrued compensated absences (Notes 1, 14)	20,716	595	19,880	551
Deferred revenue (Notes 1, 7)	40,129	8,812	38,220	5,724
Funds held in custody for others	6,516	-	6,323	-
Commercial paper (Note 10)	13,300	-	870	-
Long-term debt payable (Notes 11, 12, 23)	23,654	9,136	21,173	6,166
Other liabilities	-	7,289	-	4,940
Total current liabilities	<u>246,101</u>	<u>41,819</u>	<u>212,015</u>	<u>30,177</u>
Noncurrent liabilities				
Accrued compensated absences (Notes 1, 14)	17,694	90	16,483	88
Federal student loan program contributions refundable (Note 14)	13,501	-	13,426	-
Deferred revenue	-	6,315	-	6,066
Long-term debt payable (Notes 11, 12, 23)	477,250	242,361	423,100	197,487
Liabilities under trust agreements	-	24,776	-	27,233
Agency deposits held in trust (Note 23)	-	63,985	-	65,367
Other liabilities	2,508	9,897	2,376	9,666
Total noncurrent liabilities	<u>510,953</u>	<u>347,424</u>	<u>455,385</u>	<u>305,907</u>
Total liabilities	<u>757,054</u>	<u>389,243</u>	<u>667,400</u>	<u>336,084</u>
Net assets				
Invested in capital assets, net of related debt	867,314	81,103	794,583	71,546
Restricted, nonexpendable	364	387,953	364	369,213
Restricted, expendable				
Scholarships, research, instruction and other	79,101	256,812	75,766	288,267
Capital projects	20,302	57,868	12,837	45,768
Debt service	56,214	-	48,035	-
Unrestricted	265,648	48,831	245,316	56,063
Total net assets	<u>\$ 1,288,943</u>	<u>\$ 832,567</u>	<u>\$ 1,176,901</u>	<u>\$ 830,857</u>

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended June 30, 2012, with comparative financial information for the year ended June 30, 2011

(all dollars in thousands)

	2012		2011	
	Virginia Tech	Component Units	Virginia Tech	Component Units
Operating revenues				
Student tuition and fees, net ^(Note 1)	\$ 337,534	\$ -	\$ 311,371	\$ -
Gifts and contributions	-	36,516	-	51,874
Federal appropriations	15,047	-	11,087	-
Federal grants and contracts	192,493	-	191,348	-
Federal ARRA grants and contracts	7,348	-	9,491	-
State grants and contracts	12,282	-	12,775	-
Local grants and contracts ^(Note 3)	13,766	-	13,240	-
Nongovernmental grants and contracts	32,126	-	25,418	-
Sales and services of educational activities	14,463	-	13,824	-
Auxiliary enterprise revenue, net ^(Note 1)	201,796	45,265	187,164	47,339
Other operating revenues	5,516	50,046	5,025	40,724
Total operating revenues	832,371	131,827	780,743	139,937
Operating expenses				
Instruction	260,149	4,190	250,128	4,773
Research	280,407	11,258	271,550	5,647
Public service	85,793	4,150	79,958	5,339
Academic support	65,024	14,735	61,194	13,735
Student services	13,306	-	13,735	-
Institutional support	52,494	37,501	51,308	29,961
Operation and maintenance of plant	69,280	11,149	54,871	10,024
Student financial assistance	12,901	22,936	14,318	21,583
Auxiliary enterprises	159,564	32,805	161,955	40,524
Depreciation and amortization ^(Note 8)	77,240	7,951	66,446	5,992
Other operating expenses	147	6,200	76	9,307
Total operating expenses	1,076,305	152,875	1,025,539	146,885
Operating loss	(243,934)	(21,048)	(244,796)	(6,948)
Non-operating revenues (expenses)				
State appropriations ^(Note 19)	219,375	-	238,579	-
Gifts	53,980	-	49,063	-
Non-operating grants and contracts	2,973	-	2,097	-
Federal student financial aid (PELL)	16,921	-	17,237	-
Federal fiscal stabilization (ARRA)	3,468	-	22,455	-
Investment income, net	4	8,465	8,976	8,147
Net gain (loss) on investments	-	(7,782)	-	75,078
Other additions	424	-	331	-
Nongeneral fund reversion	(1,422)	-	(1,189)	-
Interest expense on debt related to capital assets	(16,425)	(8,228)	(13,380)	(5,068)
Net non-operating revenues (expenses)	279,298	(7,545)	324,169	78,157
Income (loss) before other revenues, expenses, gains and losses	35,364	(28,593)	79,373	71,209
Change in valuation of split interest agreements	-	553	-	5,459
Capital grants and gifts ^(Note 9)	77,995	12,421	50,491	9,223
Gain (loss) on disposal of capital assets	(1,317)	(874)	(1,622)	19
Additions to permanent endowments	-	18,962	-	37,354
Other expenses	-	(759)	-	(750)
Total other revenues, expenses, gains and losses	76,678	30,303	48,869	51,305
Increase in net assets	112,042	1,710	128,242	122,514
Net assets—beginning of year	1,176,901	830,857	1,048,659	708,343
Net assets—end of year	\$ 1,288,943	\$ 832,567	\$ 1,176,901	\$ 830,857

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Statement of Cash Flows

As of June 30, 2012, with comparative financial information as of June 30, 2011

(all dollars in thousands)

	2012	2011
Cash flows from operating activities		
Student tuition and fees	\$ 337,777	\$ 313,386
Federal appropriations	15,047	11,087
Grants and contracts	258,865	243,713
Sales and services of educational activities	14,463	13,824
Auxiliary enterprises	206,641	180,103
Other operating receipts	5,516	5,025
Payments for compensation and fringe benefits	(656,507)	(633,645)
Payments for operating expenses	(333,683)	(297,337)
Payments for scholarships and fellowships	(12,729)	(14,104)
Loans issued to students	(3,437)	(4,643)
Collection of loans from students	2,893	4,219
Net cash used by operating activities	(165,154)	(178,372)
Cash flows from noncapital financing activities		
State appropriations	217,953	237,390
Federal fiscal stabilization (ARRA)	3,468	22,455
Gifts received for other than capital purposes	53,806	49,097
Non-operating grants and contracts	2,973	2,097
Federal student financial aid (PELL)	16,921	17,237
Federal Direct Lending Program—receipts	134,850	128,914
Federal Direct Lending Program—disbursements	(134,850)	(128,187)
Funds held in custody for others—receipts	83,584	74,085
Funds held in custody for others—disbursements	(83,391)	(74,581)
Net cash provided by noncapital financing activities	295,314	328,507
Cash flows from capital and related financing activities		
Capital grants and gifts	73,956	49,628
Proceeds from capital debt	78,244	70,499
Proceeds from the sale of capital assets and insurance recoveries	777	759
Acquisition and construction of capital assets	(194,951)	(168,360)
Principal paid on capital debt and leases	(23,103)	(22,354)
Short-term debt, commercial paper	12,430	(2,105)
Interest paid on capital debt and leases	(18,213)	(18,406)
Net cash used by capital and related financing activities	(70,860)	(90,339)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	83,757	51,909
Interest on investments	1,019	1,028
Purchase of investments and related fees	(102,562)	(71,938)
Net cash used by investing activities	(17,786)	(19,001)
Net increase in cash and cash equivalents	41,514	40,795
Cash and cash equivalents—beginning of year	388,673	347,878
Cash and cash equivalents—end of year	\$ 430,187	\$ 388,673

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Statement of Cash Flows (continued)

As of June 30, 2012, with comparative financial information as of June 30, 2011

(all dollars in thousands)

	2012	2011
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (243,934)	\$ (244,796)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	77,240	66,446
Changes in assets and liabilities		
Receivables, net of allowance for doubtful accounts	4,037	(13,085)
Inventories	(2,315)	(1,644)
Prepaid items	818	(7,458)
Notes receivable, net of allowance for doubtful accounts	(472)	(514)
Accounts payable and accrued liabilities	(7,461)	18,456
Accrued payroll and other liabilities	2,910	2,381
Compensated absences	2,047	2,196
Deferred revenue	1,909	(529)
Credit card rebate	(8)	9
Federal loan program contributions refundable	75	166
Total adjustments	78,780	66,424
Net cash used by operating activities	\$ (165,154)	\$ (178,372)
Noncash investing, capital and financing activities		
Change in accounts receivable related to non-operating income	\$ (848)	\$ (1,465)
Capital assets acquired through in-kind donations as a component of capital gifts and grants income	\$ 2,696	\$ 3,114
Change in fair value of investments recognized as a component of investment income	\$ (1,525)	\$ 6,953
Change in fair value of interest payable affecting interest paid	\$ 610	\$ 109
Capital assets acquired through installment purchase agreements	\$ 1,221	\$ 4,500
Change in interest receivable affecting interest received	\$ 3	\$ 161

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Notes to Financial Statements

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I. Summary of Significant Accounting Policies

Reporting Entity

Virginia Polytechnic Institute and State University is a public land-grant university serving the Commonwealth of Virginia, the nation and the world community. The discovery and dissemination of new knowledge are central to its mission. Through its focus on teaching and learning, research and discovery, outreach and engagement, the university creates, conveys and applies knowledge to expand personal growth and opportunity, advance social and community development, foster economic competitiveness and improve the quality of life.

The university includes all funds and entities over which the university exercises or has the ability to exercise oversight authority for financial reporting purposes.

Under Governmental Accounting Standards Board (GASB) Statement 39, the Virginia Tech Foundation Inc. (VTF) and the Virginia Tech Services Inc. (VTS) are included as component units of the university.

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions and authorities over which the commonwealth exercises or has the ability to exercise oversight authority. The university is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the commonwealth.

Virginia Tech Foundation Inc.

The foundation is a legally separate, tax-exempt organization established in 1948 to receive, manage and disburse private gifts in support of Virginia Tech programs. The foundation is governed by a 35 member board of directors. The bylaws of the foundation provide that the rector of the board of visitors, the president of the alumni association, the president of the athletic fund and the president of the university shall be members of the VTF board. The remainder of the board is composed of alumni and friends of the university who actively provide private support for university programs. Directors are elected by a vote of the membership of the foundation. Membership is obtained by making gifts at or above a specified level to the foundation.

The foundation serves the university by generating significant funding from

private sources and aggressively managing its assets to provide funding as a supplement to state appropriations. It provides additional operating support to colleges and departments, assists in the funding of major building projects and provides seed capital for new university initiatives. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income which the foundation holds and invests is restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of the Virginia Tech Foundation Inc. are located at University Gateway Center, 902 Prices Fork Road, Blacksburg, Virginia 24061.

During the year ended June 30, 2012, the foundation distributed \$66,775,000 to the university, for both restricted and unrestricted purposes.

Virginia Tech Services Inc.

Virginia Tech Services Inc. was formed as a separate nonprofit corporation to own and operate bookstores and provide other services for the use and benefit of the students, faculty, staff and alumni of Virginia Tech. VTS transfers any surplus funds to the university or the foundation for allocation and use by the university as the president of the university and board of visitors deem appropriate. Although the university does not control the timing or amount of receipts from VTS, the majority of its resources or income are for the benefit of the university. Because these resources are for the benefit of the university, VTS is considered a component unit of the university and is discretely presented in the financial statements. The administrative offices of Virginia Tech Services Inc. are located at University Bookstore, Blacksburg, Virginia 24061.

During the year ended June 30, 2012, VTS paid \$1,145,000 to the university, primarily for the rental of facilities.

Financial Statement Presentation

GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, issued November 1999, establishes accounting and financial reporting standards for public colleges and universities within

the financial reporting guidelines of GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. The university is required under this guidance to include *Management's Discussion and Analysis*, and basic financial statements, including notes, in its financial statement presentation.

In fiscal year 2012 the following GASB statements of standards became effective: Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. Statement 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. Statement 64 clarifies the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The university's operations were not affected by the actions described in these two standards.

Basis of Accounting

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the university's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statements of net assets and cash flows, the university considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Investments

GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as modified by GASB Statement 59, requires that purchased investments, interest-bearing temporary investments classified with cash and investments received as gifts be recorded at fair value (see Note 4). Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the *Statement of Revenues, Expenses and Changes in Net Assets*.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students, and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts. See Note 5 for a detailed list of accounts receivable amounts by major categories.

Notes Receivable

Notes receivable consist of amounts due from the Federal Perkins Loan Program, the Health Professional Student Loan Program, and from other student loans administered by the university. Notes receivable are recorded net of allowance for doubtful accounts for current and noncurrent notes receivable, which totaled \$63,000 and \$343,000, respectively, as of June 30, 2012.

Inventories

Inventories are stated at the lower of cost or market (primarily first-in, first-out method) and consist mainly of expendable supplies for operations of auxiliary enterprises and fuel for the physical plant.

Noncurrent Cash and Investments

Noncurrent cash and investments are restricted to make debt service payments or purchase other noncurrent assets.

Capital Assets

Capital assets consisting of land, buildings, infrastructure and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress, equipment in process and software in development are capitalized at actual cost as expenses are incurred. Library materials are valued using published average prices for library acquisitions, and livestock is stated at

estimated market value. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Software is capitalized when the acquisition and/or the development costs exceed \$50,000. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, 10 to 50 years for infrastructure and land improvements, 10 years for library books, and 3 to 30 years for fixed and movable equipment. Livestock is not depreciated, as it tends to appreciate over the university's normal holding period.

Special collections are not capitalized due to the collections being: (1) held for public exhibition, education, or research in the furtherance of public service rather than financial gain; (2) protected, kept unencumbered, cared for and preserved; and (3) subject to university policy requiring the proceeds from the sales of collection items to be used to acquire other items for collections.

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The university incurred and capitalized net interest expense related to the construction of capital assets totaling \$4,076,000 for this fiscal year.

Accrued Compensated Absences

Certain salaried employees' attendance and leave regulations make provisions for the granting of a specified number of days of leave with pay each year. The amount reflects all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included. The university's liability and expense for the amount of leave earned by employees but not taken, as of June 30, 2012, is recorded in the *Statement of Net Assets* and is included in the various functional categories of operating

expenses in the *Statement of Revenues, Expenses and Changes in Net Assets*.

Deferred Revenues

Deferred revenue represents revenue collected but not earned as of June 30, 2012, primarily composed of revenue for grants and contracts, prepaid athletic ticket sales, and prepaid student tuition and fees. Summer Session I tuition and fees received during the fiscal year are considered earned at the end of the refund period, approximately June 15th of each year. Tuition and fees received prior to year end for Summer Session II are deferred and recognized as revenue in the next fiscal year. See Note 7 for a detailed list of deferred revenue amounts.

Noncurrent Liabilities

Noncurrent liabilities include: (1) the principal amounts of revenue bonds payable, notes payable and capital lease obligations with maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid in the next fiscal year.

Net Assets

The university's net assets are classified as follows:

- **Invested in capital assets, net of related debt** — Invested in capital assets, net of related debt, represents the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- **Restricted net assets, expendable** — Expendable restricted net assets include resources for which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted net assets, nonexpendable** — Nonexpendable restricted net assets comprise endowment and similar type funds where donors or other external sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- **Unrestricted net assets** — Unrestricted net assets represent resources derived from student tuition and fees, state

appropriations, recoveries of facilities and administrative (indirect) costs, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to educational departments and general operations of the university, and may be used at the discretion of the university's board of visitors to meet current expenses for any lawful purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university's policy is to apply the expense towards restricted resources before unrestricted resources.

Income Taxes

The university, as a political subdivision of the Commonwealth of Virginia, is excluded from federal income taxes under Section 115 (1) of the *Internal Revenue Code*, as amended.

Classifications of Revenues

The university has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating revenues** — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowance; (2) sales and services of auxiliary enterprises, net of scholarship allowance; (3) most federal, state, local, and nongovernmental grants and contracts, and federal appropriations; and (4) interest on institutional student loans.
- **Non-operating revenues** — Non-operating revenues are revenues received for which goods and services are not provided. State appropriations, gifts and other revenue sources that are defined as non-operating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments* are included in this category.

Scholarship Allowance

Student tuition and fees, certain auxiliary revenues and student financial assistance expenses are reported net of scholarship allowance in the *Statement of Revenues, Expenses and Changes in Net Assets*. Scholarship allowance is the difference between the stated charge for goods and services provided by the university and the amount paid by students and/or third parties making

payments on the students' behalf. For the fiscal year ended June 30, 2012, the scholarship allowance for student tuition and fee revenue and auxiliary enterprise revenue totaled \$82,166,000 and \$18,412,000 respectively. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Comparative Data

The university presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the university's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

2. Related Parties

In addition to the component units discussed in Note 1, Virginia Tech also has related parties that were not considered significant. These financial statements do not include the assets, liabilities and net assets of the related parties that support university programs. The related parties of the university are: Virginia Tech Alumni Association, Virginia Tech Athletic Fund Inc., Virginia Tech Intellectual Properties Inc., Virginia Tech Corps of Cadets Alumni Inc., Virginia Tech Applied Research Corporation, Virginia Tech Innovation Corporation and any of the subsidiaries of these corporations.

The organizations are related to the university by affiliation agreements. These agreements, approved by the board of visitors, require an annual audit to be performed by independent auditors. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. Exemption requirements are met by Virginia Tech Alumni Association, Virginia Tech Athletic Fund Inc. and Virginia Tech Corps of Cadets Alumni Inc. They are therefore not required to have

an annual audit. Virginia Tech Intellectual Properties Inc., Virginia Tech Applied Research Corporation and Virginia Tech Innovation Corporation are required to have an annual audit. Auditors have examined the financial records of these organizations and a copy of their audit reports have or will be provided to the university.

3. Local Government Support

The university, through the operation of its Cooperative Extension Service, maintains offices in numerous cities and counties throughout the Commonwealth of Virginia. Personnel assigned to these locations receive a portion of their compensation from local governments. Also included in the expenses of these extension offices are unit support services, which include such items as rent, telephone, supplies, equipment and

extension program expenses. The estimated amount contributed by the various local governments totaled \$12,367,000 in 2012, and has been included in revenues and expenses of the accompanying financial statements. The university received other local government support of \$1,399,000 in 2012.

4. Cash, Cash Equivalents and Investments

The following information is provided with respect to the university's cash, cash equivalents and investments as of June 30, 2012. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

• **Custodial credit risk** (Category 3 deposits and investments) — The custodial credit risk for deposits is the risk that, in the

event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university had no category 3 deposits or investments for 2012.

• **Credit risk** — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

• **Concentration of credit risk** — The risk of loss attributed to the magnitude of a

Categorization of credit quality and interest rate risk

Investments held on June 30, 2012 (*all dollars in thousands*)

	Credit Rating	Less than 1 Year	1-5 Years	6-10 Years	Fair Value
U.S. Treasury and Agency securities ⁽¹⁾	N/A	\$ 35,176	\$ 8,935	\$ -	\$ 44,111
Debt securities					
Corporate notes	A3	1,404	1,532	-	2,936
Corporate notes	A2	1,704	375	-	2,079
Corporate notes	A1	-	1,152	-	1,152
Corporate notes	Aa3	721	1,423	-	2,144
Corporate notes	Aa2	1,022	1,933	-	2,955
Corporate notes	Aaa	-	1,238	-	1,238
Corporate notes	Baa2	1,012	-	-	1,012
Corporate bonds	A3	1,377	1,880	-	3,257
Corporate bonds	A2	3,239	1,681	-	4,920
Corporate bonds	A1	1,920	2,917	-	4,837
Corporate bonds	Aa3	-	2,300	-	2,300
Corporate bonds	Aa1	-	1,918	-	1,918
Corporate bonds	Aaa	1,719	3,325	-	5,044
Corporate bonds	Baa1	-	240	-	240
Repurchase agreements	N/A	73,322	-	-	73,322
Asset backed securities	Aaa	7,458	13,063	-	20,521
Asset backed securities ⁽²⁾	AAA	1,023	4,085	-	5,108
Asset backed securities ⁽²⁾	AA+	186	-	-	186
Federal agency securities					
Unsecured bonds and notes	Aaa	3,086	7,095	-	10,181
Mortgage backed securities	Aaa	202,881	16,955	-	219,836
Mortgage backed securities ⁽²⁾	AAA	365	669	-	1,034
Money market & mutual funds					
Money market & mutual funds ⁽²⁾	AAA	8	2,410	-	2,418
Money market & mutual funds ⁽²⁾	Aaa	2,827	-	-	2,827
Other:					
Deposits with VTF	N/A	1,633	-	-	1,633
Dairymen's Equity ⁽²⁾	BBB+	-	-	62	62
Short-term investment fund ⁽²⁾	AAAm	181	-	-	181
SNAP ⁽²⁾	AAAm	73,741	-	-	73,741
Subtotal		\$ 416,005	\$ 75,126	\$ 62	491,193
Investments without specific maturities, held with VTF					51,213
Total					\$ 542,406

⁽¹⁾ Credit quality ratings are not required for U.S. Government securities that are explicitly guaranteed by the United States Government.

⁽²⁾ Credit ratings are from Moody's Investors Service except for these investments which are rated by Standard & Poor's.

government's investment in a single issuer is referred to as concentration of credit risk. GASB Statement 40 requires disclosure of any issuer with more than 5% of total investments. The university's investment policy requires its investment pools and sub-portfolios be diversified so that no more than 5% of the value of the respective portfolios is invested in securities of any single issuer. The university does not have investments subject to risks due to the concentration of credit.

• **Interest rate risk** — This is the risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The university uses a duration methodology to measure the maturities of its investment portfolios. The university's *Statement of Policy Governing the Investment of University Funds* established two investment pools, Primary Liquidity Pool and Total Return Pool, managed by external investment firms. Asset allocations to the Primary Liquidity Pool are targeted at 75% of total investments with approximate maturities between 15 to 90 days. The Total Return Pool is structured into three sub-portfolios; a Short Duration Portfolio, an Intermediate Duration Portfolio and an Extended Duration Portfolio with target investment maturity durations of 1.7 years, 3.8 years and 4.8 years, respectively.

• **Foreign currency risk** — This risk refers to the possibility that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no foreign investments or deposits for 2012.

Cash and Cash Equivalents

Cash deposits held by the university are maintained in accounts that are collateralized in accordance with the *Virginia Security for Public Deposits Act*, Section 2.2-4400, et seq., *Code of Virginia*. Cash and cash equivalents represent cash with the treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Investments

The investment policy of the university is established by the board of visitors and monitored by the board's Finance and Audit Committee. Authorized investments are set forth in the *Investment of Public Funds Act*, Section 2.2-4500 through 2.2-4516, et seq., *Code of Virginia*. Authorized investments include: U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers acceptances and bank notes, negotiable certificates of deposit, repurchase agreements and money market funds.

All gifts, local funds, and nongeneral fund reserves and balances the university determines appropriate and permitted by law may be invested in the VTF Consolidated Endowment program. These funds are governed by the foundation's investment and spending policies, and managed in accordance with the provisions of the *Virginia Uniform Prudent Management of Institutional Funds Act*.

A categorization of university investments follows. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Summary of Investments

As of June 30, 2012 (*all dollars in thousands*)

	Current Assets	Noncurrent Assets	Total
Cash and cash equivalents	\$ 288,919	\$ 141,268	\$ 430,187
Short-term investments	2,410	-	2,410
Long-term investments	-	152,403	152,403
Cash and investments	<u>\$ 291,329</u>	<u>\$ 293,671</u>	<u>585,000</u>
Less cash			42,594
Total investments			<u>\$ 542,406</u>

5. Accounts Receivable

Accounts receivable consists of the following as of June 30, 2012 (*all dollars in thousands*):

Current receivables	
Grants and contracts	\$ 43,019
Federal appropriations	2,308
Accrued investment interest	441
Student tuition and fees	2,752
Auxiliary enterprises and other operating activities	<u>7,676</u>
Total current receivables before allowance	56,196
Less allowance for doubtful accounts	<u>2,661</u>
Net current accounts receivable	<u>53,535</u>
Noncurrent receivables	
Capital gifts, grants and other receivables	3,602
Build America bonds interest receivable	162
Accrued investment interest	<u>154</u>
Total noncurrent receivables	<u>3,918</u>
Total receivables	<u>\$ 57,453</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2012, consist of the following (*all dollars in thousands*):

Accounts payable	\$ 30,703
Accounts payable, capital projects	45,462
Accrued salaries and wages payable	58,044
Retainage payable	<u>7,577</u>
Total current accounts payable and accrued liabilities	<u>\$ 141,786</u>

Retainage payable represents funds held by the university as retainage on various construction contracts for work performed. The funds retained will be remitted to the various contractors upon satisfactory completion of the construction projects.

7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2012 (*all dollars in thousands*):

Grants and contracts	\$ 16,290
Prepaid athletic tickets	12,212
Prepaid tuition and fees	8,883
Other auxiliary enterprises	<u>2,744</u>
Total deferred revenue	<u>\$ 40,129</u>

8. Capital Assets

Changes in capital assets for the year ending June 30, 2012 (*all dollars in thousands*)

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings	\$ 1,112,217	\$ 56,255	\$ 536	\$ 1,167,936
Moveable equipment	407,841	43,806	21,830	429,817
Software and intangible assets	8,335	348	74	8,609
Fixed equipment	102,315	2,864	842	104,337
Infrastructure	116,437	2,128	19	118,546
Library books	76,099	1,939	1,805	76,233
Total depreciable capital assets, at cost	1,823,244	107,340	25,106	1,905,478
Less accumulated depreciation and amortization				
Buildings	340,125	29,594	497	369,222
Moveable equipment	278,316	36,940	20,118	295,138
Software and intangible assets	6,288	494	73	6,709
Fixed equipment	48,775	4,927	698	53,004
Infrastructure	83,294	2,733	13	86,014
Library books	61,807	2,552	1,805	62,554
Total accumulated depreciation and amortization	818,605	77,240	23,204	872,641
Total depreciable capital assets, less accumulated depreciation and amortization	1,004,639	30,100	1,902	1,032,837
Nondepreciable capital assets				
Land	46,057	127	-	46,184
Livestock	665	168	-	833
Construction in progress	141,821	171,266	56,871	256,216
Equipment in process	3,162	3,285	3,135	3,312
Software in development	279	245	347	177
Total nondepreciable capital assets	191,984	175,091	60,353	306,722
Total capital assets, less accumulated depreciation and amortization	\$ 1,196,623	\$ 205,191	\$ 62,255	\$ 1,339,559

9. Commonwealth Capital Reimbursement Programs and Capital Gifts

The commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2012, funding has been provided to the university from three programs (21st Century program, Central Maintenance Reserve program and the Equipment Trust Fund program) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities. The university also receives capital funding for equipment and facilities from private gifts, grants and contracts.

The *Statement of Revenues, Expenses and Changes in Net Assets* includes the amounts listed below for the year ended June 30, 2012, in the "Capital Grants and Gifts" line item for equipment and facilities. Part of the funding for these programs is a receivable from the commonwealth at June 30, 2012 as shown in the subsequent paragraph (*all dollars in thousands*):

VCBA 21st Century program	\$ 46,072
VCBA Central Maintenance Reserve program	8,900
VCBA Equipment Trust Fund program	12,126
Private gifts	4,374
Grants and contracts	6,523
	<u>\$ 77,995</u>

The line items, "Due from the Commonwealth of Virginia", on the *Statement of Net Assets* for the year ended June 30, 2012, represent pending reimbursements from the following programs (*all dollars in thousands*):

	Current	Noncurrent
Capital appropriations receivable	\$ -	\$ 12
VCBA Equipment Trust Fund program	10,496	-
Credit card rebate/accrued interest	389	-
VCBA 21st Century program	-	4,145
	<u>\$ 10,885</u>	<u>\$ 4,157</u>

10. Short-term Debt

On March 31, 2008, the Virginia Tech Board of Visitors approved the short-term financing of capital projects with commercial paper issued through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. This tax-exempt commercial paper financing program gives the university access to a revolving facility to finance or refinance up to \$50 million for capital projects under construction that have been previously approved for debt financing by either the board of visitors or the General Assembly of the Commonwealth of Virginia. At June 30, 2012 the amount outstanding was \$13,300,000. The average days-to-maturity was 28 days with a weighted average effective interest rate of 1.01%.

II. Summary of Long-term Indebtedness

Bonds Payable

The university has issued two categories of bonds pursuant to section 9 of Article X of the *Constitution of Virginia*.

Section 9(d) bonds are revenue bonds which are limited obligations of the university, payable exclusively from pledged general revenues, and which are not legal or moral debts of the Commonwealth of Virginia. Pledged general revenues include general fund appropriations, student tuition and fees, facilities and administrative (indirect) cost recoveries, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The university has issued section 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority issues section 9(d) bonds with the proceeds used to purchase debt obligations (notes) of the university and other institutions of higher education. The notes are secured by pledged general revenues of the university.

Section 9(c) bonds are general obligation revenue bonds issued by the

Commonwealth of Virginia on behalf of the university and secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

Bond covenants related to some of these bonds, both 9(c) and 9(d), established or continued groups of accounts called systems. The investment firms of Standish Mellon and Merganser hold these systems in trust for managing the net revenues and debt service of certain university auxiliaries. The revenue bonds issued by the Dorm and Dining Hall System, the University Services System (comprised of the Student Centers, Recreational Sports and Student Health auxiliaries), the Utility System (the Electric Service auxiliary) and the Athletic System are secured by a pledge of each system's net revenues generated from student or customer fees, and are further secured by the pledged general revenues of the university.

Notes Payable

Notes payable are debt obligations between the Virginia College Building Authority (VCBA) and the university. The VCBA issues bonds through the Pooled Bond Program and uses the proceeds to purchase

debt obligations (notes) of the university. The notes are secured by the pledged general revenues of the university.

Capital Leases

Capital leases represent the university's obligation primarily to the Virginia Tech Foundation Inc. for lease agreements related to the Student Services building, Southgate Center addition, Hunter Andrews Information Systems building addition and the Integrated Life Sciences building (ILSB), including a separate lease for a vivarium located in the ILSB. Additionally, the university entered into a capital lease with a private party for a facility occupied by the National Tire Research Center. The assets under capital lease are recorded at the net present value of the minimum lease payments during the lease term.

Installment Purchase Obligations

The university has entered into various installment purchase contracts to finance the acquisition of equipment. The length of the purchase agreements ranges from two to five years with variable rates of interest. The outstanding principal is included in the "Long-term debt payable" line items on the *Statement of Net Assets*.

Long-term Debt Payable Activity

As of June 30, 2012 (*all dollars in thousands*)

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds payable					
Section 9(c) general obligation revenue bonds	\$ 166,165	\$ 21,736	\$ 9,323	\$ 178,578	\$ 8,412
Section 9(d) revenue bonds	63,734	-	5,424	58,310	5,815
Notes payable	188,807	77,653	27,712	238,748	7,970
Capital lease obligations	25,244	1,221	1,301	25,164	1,399
Installment purchase obligations	323	-	219	104	58
Total long-term debt payable	<u>\$ 444,273</u>	<u>100,610</u>	<u>43,979</u>	<u>\$ 500,904</u>	<u>\$ 23,654</u>
Current year debt defeasance		(20,983)	(20,876)		
Total additions/retirements, net of current year defeasance		<u>\$ 79,627</u>	<u>\$ 23,103</u>		

Future Principal Commitments

For fiscal years subsequent to 2012 (*all dollars in thousands*)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Long-term Debt Payable
2013	\$ 8,412	\$ 5,815	\$ 7,970	\$ 1,399	\$ 58	\$ 23,654
2014	7,877	6,105	11,140	1,482	20	26,624
2015	8,364	6,380	11,785	1,568	19	28,116
2016	8,655	6,700	12,275	1,658	7	29,295
2017	9,122	2,360	12,885	1,756	-	26,123
2018 – 2022	41,770	12,090	64,920	9,393	-	128,173
2023 – 2027	49,695	12,770	58,305	6,156	-	126,926
2028 – 2032	27,425	6,000	34,555	1,752	-	69,732
2033 – 2037	3,385	-	10,245	-	-	13,630
Unamortized premium	13,806	847	15,404	-	-	30,057
Deferral on debt defeasance	67	(757)	(736)	-	-	(1,426)
Total future principal requirements	<u>\$ 178,578</u>	<u>\$ 58,310</u>	<u>\$ 238,748</u>	<u>\$ 25,164</u>	<u>\$ 104</u>	<u>\$ 500,904</u>

Future Interest Commitments

For fiscal years subsequent to 2012 (all dollars in thousands)

	Section 9(c) Bonds	Section 9(d) Bonds	Notes Payable	Capital Lease Obligations	Installment Purchase Obligations	Total Interest
2013	\$ 7,543	\$ 2,820	\$ 10,111	\$ 1,385	\$ 2	\$ 21,861
2014	7,178	2,533	9,699	1,313	1	20,724
2015	6,816	2,245	9,136	1,237	-	19,434
2016	6,412	1,927	8,552	1,156	-	18,047
2017	6,042	1,612	7,938	1,071	-	16,663
2018 – 2022	24,661	6,251	30,105	3,935	-	64,952
2023 – 2027	14,505	3,304	16,293	1,670	-	35,772
2028 – 2032	3,763	431	5,644	73	-	9,911
2033 – 2037	256	-	1,108	-	-	1,364
Total future interest commitments	\$ 77,176	\$ 21,123	\$ 98,586	\$ 11,840	\$ 3	\$ 208,728

12. Detail of Long-term Indebtedness

Bonds Payable

As of June, 30, 2012 (all dollars in thousands)

	Interest rates	Maturity	2012
Revenue Bonds			
Dormitory and dining hall system			
Series 2004A, issued \$2,710 – refunding series 1996A*	2.00% - 5.00%	2016	\$ 1,220
Series 2004A, issued \$1,665 – refunding series 1996A*	2.00% - 5.00%	2016	750
Series 2004B, issued \$1,265 – refunding series 1996B*	2.00% - 4.00%	2016	545
University services systems			
Student Health and Fitness Center			
Series 2004C, issued \$15,105 – refunding series 1996C*	2.00% - 5.00%	2016	6,620
Athletic system			
Athletic facility – improvements			
Series 2004D, issued \$4,155 – refunding series 1996A*	2.00% - 5.00%	2016	1,870
Lane Stadium west sideline expansion			
Series 2004D, issued \$52,715	3.00% - 5.13%	2029	36,625
Northern Virginia Graduate Center			
Series 2004A, issued \$7,860 – refunding series 1996A*	2.00% - 5.00%	2020	5,035
Architectural/engineering			
Series 2004A, issued \$4,685 – refunding series 1996A*	2.00% - 5.00%	2016	2,120
Coal-fired boiler facility			
Series 2004A, issued \$6,005 – refunding series 1996A*	2.00% - 5.00%	2016	2,720
Series 2004A, issued \$1,585 – refunding series 1996A*	2.00% - 5.00%	2016	715
Unamortized premium (discount)			847
Deferral on debt defeasance			(757)
Total revenue bonds			58,310
General Obligation Revenue Bonds			
Dormitory and dining hall system			
Series 2004B, issued \$9,995 – partial refunding series 1997*	2.00% - 5.00%	2017	5,521
Series 2004B, issued \$1,928 – partial refunding series 1998*	2.00% - 5.00%	2018	1,246
Series 2004B, issued \$1,168 – partial refunding series 1999*	2.00% - 5.00%	2019	856
Series 2004A, issued \$4,800	3.75% - 5.00%	2014	440
Series 2007A, issued \$5,995	4.00% - 5.00%	2027	5,305
Series 2007A, issued \$13,130	4.00% - 5.00%	2027	11,625
Series 2008B, issued \$1,813 – refunding series 1998R*	4.38% - 4.70%	2013	385
Series 2008B, issued \$969 – refunding series 1998R*	4.38% - 4.70%	2013	208
Series 2008B, issued \$1,010 – refunding series 1998R*	4.38% - 4.70%	2013	217
Series 2008B, issued \$17,185	3.00% - 5.00%	2028	15,400
Series 2009D, issued \$1,891 – partial refunding series 2004A*	5.00%	2022	1,891
Series 2009B, issued \$39,005	4.00% - 5.00%	2029	37,595
Series 2009B, issued \$3,720	4.00% - 5.00%	2029	3,585
Series 2011A, issued \$18,860	4.34%	2031	18,860
Series 2012A, issued \$942 – partial refunding series 2004A*	5.00%	2024	942
Lavery Hall, series 2010A, issued \$34,650	3.00% - 5.00%	2030	33,245
Parking facilities			
Series 2004B, issued \$951 – partial refunding series 1997*	2.00% - 5.00%	2017	519
Series 2006B, issued \$685	4.00% - 5.00%	2026	340
Series 2008B, issued \$1,545	3.00% - 5.00%	2028	1,340

Series 2009D, issued \$190 – partial refunding series 2006B*	5.00%	2022	190
Series 2009C, issued \$276 – partial refunding series 2002*	3.00% - 4.00%	2017	276
Series 2009B, issued \$24,590	4.00% - 5.00%	2034	23,985
Series 2010A, issued \$745	2.00% - 5.00%	2030	695
Series 2012A, issued \$39 – partial refunding series 2002*	5.00%	2013	39
Unamortized premium (discount)			13,806
Deferral on debt defeasance			67
Total general obligation revenue bonds			<u>178,578</u>
Total bonds payable			<u>\$ 236,888</u>

Notes Payable

Notes payable to VCBA under the pooled 9(d) bond program at June 30, 2012
(all dollars in thousands)

	Average coupon rate	Maturity	2012
Dormitory and dining hall system			
Series 2004B, issued \$1,120 – partial refunding series 1999*	5.00%	2014	\$ 1,120
Series 2004B, issued \$7,420 – partial refunding series 1999A*	3.00% - 5.00%	2020	6,030
Series 2005, issued \$2,815	3.50% - 5.00%	2017	850
Series 2007B, issued \$3,395 – partial refunding series 1998A*	4.00% - 4.50%	2019	3,390
Series 2012A, issued \$1,350 – partial refunding series 2005*	5.00%	2025	1,350
University services system – Smith Career Center			
Series 2002A, issued \$4,405*	5.19%	2023	205
Series 2007B, issued \$1,621 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,589
Series 2010B, issued \$1,190 – partial refunding series 2002A*	5.25%	2023	1,190
Utility system			
Series 2002A, issued \$2,875*	5.19%	2023	135
Series 2004B, issued \$870 – partial refunding series 2000A*	3.00% - 5.00%	2017	844
Series 2007B, issued \$646 – partial refunding series 2000A*	4.00% - 4.50%	2020	646
Series 2010B, issued \$345 – partial refunding series 2000A*	5.00% - 5.75%	2021	215
Series 2007B, issued \$1,060 – partial refunding series 2002A*	4.00% - 4.50%	2020	1,039
Series 2010B, issued \$770 – partial refunding series 2002A*	5.25%	2023	770
Athletic system – Lane Stadium expansion			
Series 2007B, issued \$2,860 – partial refunding series 2001A*	4.00% - 4.50%	2020	2,825
Series 2009B, issued \$8,705	2.00% - 5.00%	2030	8,160
Series 2010B, issued \$11,540 – partial refunding series 2001A*	4.00% - 5.00%	2027	11,540
Infectious waste facility			
Series 2004B, issued \$480 – partial refunding series 2000A*	3.00% - 5.00%	2017	471
Series 2007B, issued \$359 – partial refunding series 2000A*	4.00% - 4.50%	2020	359
Series 2010B, issued \$190 – partial refunding series 2000A*	5.00% - 5.75%	2021	120
Biomedical facility			
Series 2002A, issued \$21,930	5.11%	2028	720
Series 2007B, issued \$5,649 – partial refunding series 2002A*	4.00% - 4.50%	2020	5,537
Series 2010B, issued \$10,155 – partial refunding series 2002A*	4.00% - 5.25%	2028	10,155
Alumni Hall and conference center			
Series 2003A, issued \$21,585	4.63%	2014	1,265
Series 2010B, issued \$3,215 – partial refunding series 2003A*	4.38% - 5.00%	2021	3,215
Series 2012A, issued \$12,320 – partial refunding series 2003A*	4.75%	2031	12,320
Life Sciences-I			
Series 2005, issued \$8,295	3.50% - 5.00%	2017	2,495
Series 2012A, issued \$3,985 – partial refunding series 2005*	5.00%	2025	3,985
ICTAS-I, series 2006A, issued \$16,145	3.00% - 5.00%	2027	13,450
Boiler pollution controls, series 2006A, issued \$1,925	3.00% - 5.00%	2027	1,605
Surge space building, series 2006A, issued \$7,025	4.00% - 5.00%	2022	5,230
Campus heating plant			
Series 2007A, issued \$3,880	4.50% - 5.00%	2028	3,485
Series 2009B, issued \$5,875	2.00% - 5.00%	2030	5,510
McComas Hall exterior repairs			
Series 2009A, issued \$1,475	2.75% - 5.00%	2029	1,315
Series 2009B, issued \$4,365	2.00% - 5.00%	2030	4,220
ICTAS-II, series 2009B, issued \$13,045	2.00% - 5.00%	2030	12,620
McComas Hall recreation, counseling and clinical space			
Series 2009B, issued \$12,420	2.00% - 5.00%	2030	12,015
Center for the Arts			
Series 2010B, issued \$19,445	3.75% - 5.60%	2036	19,445
Series 2011A, issued \$19,375	3.00% - 5.00%	2037	19,375
Lavery Hall, series 2010B, issued \$9,650	3.75% - 5.50%	2031	9,650

Signature Engineering building			
Series 2011A, issued \$13,410	5.00%	2020	13,410
Series 2011A, issued \$12,695	3.00% - 5.00%	2032	12,695
Chiller Plant, series 2011A, issued \$7,515	3.00% - 5.00%	2032	7,515
Unamortized premium (discount)			15,404
Deferral on debt defeasance			(736)
Total notes payable			<u>\$ 238,748</u>
*See Note 13 – Long-term Debt Defeasance			

Other Long-term Debt

At June 30, 2012 (all dollars in thousands)

Capital leases payable for agreements related to the Student Services building, Southgate Center addition, Hunter Andrews addition, Integrated Life Sciences (ILSB) building with separate Vivarium lease, National Tire Research Center and equipment	\$ 25,164
Installment purchase obligations for equipment purchases through June 2012 with various interest rates and maturing through 2016	<u>104</u>
Total other long-term debt	<u>\$ 25,268</u>

13. Long-term Debt Defeasance

Current Year

The university issued \$1,235,000 of section 9(c) bonds and \$19,748,000 of section 9(d) notes to refund \$1,059,000 of section 9(c) bonds and \$19,817,000 of section 9(d) notes, respectively, in fiscal year 2012. The resulting net loss of \$106,000 will be amortized over the life of the new debt. For financial reporting purposes, these bonds and notes are considered an in-substance defeasance and have therefore been removed from the long-term debt payable line item of the *Statement of Net Assets*. The assets in escrow have similarly been excluded. The details of each refunded debt issue are presented below.

Debt Issues Refunded

As of June 30, 2012

(all dollars in thousands)

	True Interest Cost	Debt Refunded	Refunding Debt Issued	Accounting Gain (Loss)	Reduction in Debt Service	Gain Discounted at TIC	Defeased Debt
Bonds							
Series 2002, issued \$975	1.56%	\$ 70	\$ 40	\$ 15	\$ 34	\$ 34	\$ 70
Series 2004A, issued \$4,800	1.56%	989	1,195	(190)	36	35	989
Total Bonds		<u>1,059</u>	<u>1,235</u>	<u>(175)</u>	<u>70</u>	<u>69</u>	<u>1,059</u>
Notes							
Series 2005, issued \$2,815	2.09%	1,455	1,616	(161)	113	98	1,455
Series 2005, issued \$8,295	2.09%	4,300	4,769	(469)	344	298	4,300
Series 2003A, issued \$21,585	2.09%	14,062	13,363	699	4,348	3,411	14,062
Total Notes		<u>19,817</u>	<u>19,748</u>	<u>69</u>	<u>4,805</u>	<u>3,807</u>	<u>19,817</u>
Total Bonds and Notes		<u>\$ 20,876</u>	<u>\$ 20,983</u>	<u>\$ (106)</u>	<u>\$ 4,875</u>	<u>\$ 3,876</u>	<u>\$ 20,876</u>

Previous Years

In previous fiscal years in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the university has excluded from its financial statements the assets in escrow and the debt payable that was defeased in-substance. For the year ended June 30, 2012, bonds and notes payable considered defeased in previous years totaled \$24,660,000.

14. Change in Other Liabilities

A summary of the changes in other liabilities for the year ended June 30, 2012 (all dollars in thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 36,363	\$ 28,857	\$ 26,810	\$ 38,410	\$ 20,716
Federal student loan program contribution refundable	13,426	259	184	13,501	-
Total other liabilities	<u>\$ 49,789</u>	<u>\$ 29,116</u>	<u>\$ 26,994</u>	<u>\$ 51,911</u>	<u>\$ 20,716</u>

15. Lease Commitments

The university has entered into numerous agreements to lease land, buildings and equipment. With some of these agreements, the university is committed under various operating leases for equipment and space. In general, the leases are for three- to ten-year terms with renewal options. The university expects similar leases to replace these leases during the normal course of business. The total lease expense was approximately \$19,451,000 for the year ended June 30, 2012. This amount includes approximately \$13,163,000 in lease payments to the Virginia Tech Foundation Inc. for office and laboratory space. In addition, the total lease expense includes approximately \$1,420,000 of short-term equipment rentals that can be terminated at any time. The short-term equipment rental costs are not included in the summary of future lease payments listed in the table below.

A summary of future minimum lease payments under operating leases as of June 30, 2012, follows (*all dollars in thousands*):

2013	\$	17,024
2014		13,244
2015		10,216
2016		9,204
2017		6,800
2018 – 2022		24,510
2023 – 2027		1,587
2028 – 2032		810
2033 – 2037		54
2038 – 2042		54
2043 – 2047		54
2048 – 2052		54
2053 – 2057		54
2058 – 2062		22
Total	\$	<u>83,687</u>

16. Capital Improvement Commitments

The amounts listed in the following tables represent the value of obligations remaining on capital improvement project contracts. These obligations are for future effort and as such have not been accrued as expenses or liabilities on the university's financial statements. Outstanding contractual commitments for capital improvement projects at June 30, 2012 are listed in the next column.

Capital commitments by project (all dollars in thousands)

Signature Engineering Building	\$	46,135
Center for the Arts		38,470
Human & Agriculture Biosciences I		37,759
Davidson Hall Renovation		21,972
Chiller Plant Phase I		13,587
Oak Lane Infrastructure		1,745
Virginia Tech Carilion Research Institute Third Floor Build-out		1,261
Campus Heating Plant		1,104
Other projects		3,743
Total	\$	<u>165,776</u>

Capital commitments by source of funding (all dollars in thousands)

Bonds and notes payable	\$	46,137
Capital appropriations		87,062
Private funds		8,195
University cost recoveries and education and general funds		9,818
Auxiliary enterprise funds		3,734
State general appropriations		10,830
Total	\$	<u>165,776</u>

17. Contributions to Pension Plans

Virginia Retirement System

Employees of the university are employees of the Commonwealth of Virginia and therefore participate in the commonwealth's defined benefit retirement plan. This plan is administered by the Virginia Retirement System (VRS). The VRS is a multiple-employer public employee retirement system that acts as a common investment and administrative agency for the commonwealth and its political subdivisions.

The VRS contribution assessed to the university was lowered this year to reflect the shift of the employee portion (5%), previously funded by the university, to the employee as a payroll deduction.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the commonwealth's *Comprehensive Annual Financial Report*. The commonwealth, not the university, has the overall responsibility for contributions to this plan.

The university's expenses for these contributions to the VRS totaled approximately \$7,719,000 for the year ended June 30, 2012.

Optional Retirement Plan

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by three different providers other than the VRS. The

three different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services Co. and the Variable Annuity Life Insurance Company (VALIC). This plan is a defined contribution program where the retirement benefits received are based upon the employer's (5.4%) and employees' (5.0%) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the university's and the employees' contributions. Total pension costs under this plan were approximately \$19,475,000 for year ended June 30, 2012. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$192,404,000 for this fiscal year.

Deferred Compensation Plan

Employees of the university are employees of the Commonwealth of Virginia. State employees may participate in the commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the *Internal Revenue Code*. The university expense for matching contributions to this plan, which is an amount assessed by the commonwealth, was approximately \$2,089,000 for fiscal year 2012.

Federal Pension Plans

Certain Cooperative Extension Service professional employees are participants in either the Federal Employee Retirement System (FERS) or the Federal Civil Service Retirement System (CSRS). The FERS and CSRS are defined benefit plans in which benefits are based upon the highest base pay over any three consecutive years and the years of creditable service. The costs under these plans were approximately \$137,000 for the year ended June 30, 2012. Contributions to the FERS and CSRS were calculated using the base salary amount of approximately \$1,424,000 for fiscal year 2012.

In addition, the university contributed \$30,500 in employer contributions to the Thrift Savings Plan for the year ended June 30, 2012. The Thrift Savings Plan is a defined contribution plan in which the university matches employee contributions within certain limitations.

18. Postemployment Benefits

The commonwealth sponsors postemployment benefit programs that are administered by the VRS. These programs, a state-wide group life insurance program and the Virginia Sickness and Disability Program's long-term care plan, provide postemployment benefits to eligible retired and terminated employees. Health care credits are also provided to offset the monthly health insurance premiums for retirees who have at least 15 years of service. Information related to these plans is available at the state-wide level in the commonwealth's *Comprehensive Annual Financial Report*.

19. Appropriations

The Appropriation Act specifies that unexpended general fund appropriations remaining on the last day of the current year, ending on June 30, 2012, shall be reappropriated for expenditure in the first month of the next year, beginning on July 1, 2012, except as may be specifically provided otherwise by the Virginia General Assembly. The governor may, at his discretion, unallot funds from the reappropriated balances that relate to unexpended appropriations for payments to individuals, aid to localities, or any pass-through grants.

Adjustments made to the university's original appropriation during this fiscal year are as follows (*all dollars in thousands*):

Original legislative appropriation (per Chapter 874 as amended)

Education and general programs	\$ 190,812
Student financial assistance	18,174
Commonwealth research initiative	2,389
Unique military activities	1,334
Engineering research center fund	200
Eminent scholar program	165
Total appropriation	<u>213,074</u>

Adjustments

Employee fringe benefit programs	3,466
Rolls Royce partnership	2,416
Undergraduate internships	385
Other adjustments	34
Total adjustments	<u>6,301</u>
Adjusted appropriation	<u>\$ 219,375</u>

20. Grants, Contracts and Other Contingencies

The university has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the outlay of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the university.

In addition, the university is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30,

2012, the university estimates that no material liabilities will result from such audits or questions.

The university entered into a contingent lease with an external party for space under construction in support of future research activities. The initial term of the contingent lease is 10 years with projected annual lease payments of \$144,996 and initial occupancy on or before December 1, 2012.

21. Federal Direct Lending Program

The university participates in the Federal Direct Lending Program. Under this program, the university receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan proceeds are treated as student payments with the university acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the *Statement of Revenues, Expenses and Changes in Net Assets*. The activity is included in the noncapital financing section of the *Statement of Cash Flows*. For the fiscal year ended June 30, 2012, cash provided by the program totaled \$134,850,000 and cash used by the program totaled \$134,850,000.

22. Expenses by Natural Classification within Functional Classification

The university's operating expenses by functional classification for the year ended June 30, 2012 (*all dollars in thousands*)

	Compensation and Benefits	Contractual Services	Other Supplies and Materials	Travel	Operating Expenses	Scholarships and Fellowships	Sponsored Program Subcontracts	Total
Instruction	\$ 236,160	\$ 10,109	\$ 6,801	\$ 4,990	\$ 635	\$ 1,249	\$ 205	\$ 260,149
Research	178,839	19,793	22,086	13,233	5,331	12,886	28,239	280,407
Public service	49,283	17,638	4,278	6,194	1,681	571	6,148	85,793
Academic support	44,733	4,491	11,380	1,130	3,109	176	5	65,024
Student services	9,826	1,682	826	674	163	127	8	13,306
Institutional support	42,244	4,817	2,218	2,345	438	415	17	52,494
Operation and maintenance of plant	24,813	3,426	17,551	296	23,163	31	-	69,280
Student financial assistance	172	-	18	147	6	12,558	-	12,901
Auxiliary enterprises	75,395	18,781	33,779	10,137	17,096	4,373	3	159,564
Subtotal before other costs	<u>\$ 661,465</u>	<u>\$ 80,737</u>	<u>\$ 98,937</u>	<u>\$ 39,146</u>	<u>\$ 51,622</u>	<u>\$ 32,386</u>	<u>\$ 34,625</u>	<u>998,918</u>
Depreciation and amortization expense								77,240
Loan administrative fees and collection costs								147
Total operating expenses								<u>\$ 1,076,305</u>

23. Component Units

The component units' statements on the following pages, and subsequent notes, comply with the General Accounting Standards Board (GASB) presentation format. Both Virginia Tech Foundation Inc. and Virginia Tech Services Inc. follow the Financial Accounting Standards Board (FASB) presentation format in their audited financial statements. Consequently, reclassifications have been made to convert their statements to the GASB format.

23. Component Units (continued)

Consolidating Statement of Net Assets

The financial position for the university's component units as of June 30, 2012

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Assets			
Current assets			
Cash and cash equivalents	\$ (9,192)	\$ 621	\$ (8,571)
Short-term investments	4,795	3,059	7,854
Accounts and contributions receivable, net	20,881	342	21,223
Notes receivable, net	2,169	-	2,169
Inventories	381	6,034	6,415
Prepaid expenses	693	284	977
Other assets	3,021	-	3,021
Total current assets	22,748	10,340	33,088
Noncurrent assets			
Cash and cash equivalents	60,748	-	60,748
Accounts and contributions receivable, net	65,873	-	65,873
Notes and deeds of trust receivable, net	25,624	-	25,624
Net investments in direct financing leases	22,187	-	22,187
Irrevocable trusts held by others, net	8,762	-	8,762
Long-term investments	711,379	-	711,379
Depreciable capital assets, net	172,589	761	173,350
Nondepreciable capital assets	115,269	-	115,269
Intangible assets, net	637	-	637
Other assets	4,893	-	4,893
Total noncurrent assets	1,187,961	761	1,188,722
Total assets	1,210,709	11,101	1,221,810
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10,816	5,171	15,987
Accrued compensated absences	323	272	595
Deferred revenue	8,158	654	8,812
Long-term debt payable	9,136	-	9,136
Other liabilities	6,589	700	7,289
Total current liabilities	35,022	6,797	41,819
Noncurrent liabilities			
Accrued compensated absences	90	-	90
Deferred revenue	6,315	-	6,315
Long-term debt payable	242,361	-	242,361
Liabilities under trust agreements	24,776	-	24,776
Agency deposits held in trust	63,985	-	63,985
Other liabilities	9,897	-	9,897
Total noncurrent liabilities	347,424	-	347,424
Total liabilities	382,446	6,797	389,243
Net assets			
Invested in capital assets, net of related debt	80,342	761	81,103
Restricted, nonexpendable	387,953	-	387,953
Restricted, expendable			
Scholarships, research, instruction and other	256,812	-	256,812
Capital projects	57,868	-	57,868
Unrestricted	45,288	3,543	48,831
Total net assets	\$ 828,263	\$ 4,304	\$ 832,567

23. Component Units (continued)

Consolidating Statement of Revenues, Expenses and Changes in Net Assets

The university's component unit activity for the year ended June 30, 2012

(all dollars in thousands)

	Virginia Tech Foundation	Virginia Tech Services	Total Component Units
Operating revenues			
Gifts and contributions	\$ 36,516	\$ -	\$ 36,516
Auxiliary enterprise revenue			
Hotel Roanoke	18,218	-	18,218
River Course	1,330	-	1,330
Bookstore	-	25,717	25,717
Other revenues			
Rental income	28,212	-	28,212
Other	21,834	-	21,834
Total operating revenues	<u>106,110</u>	<u>25,717</u>	<u>131,827</u>
Operating expenses			
Instruction	4,190	-	4,190
Research	11,258	-	11,258
Public service	4,150	-	4,150
Academic support	14,735	-	14,735
Institutional support			
Other university programs	19,727	-	19,727
Fundraising	7,142	-	7,142
Management and general	10,632	-	10,632
Operation and maintenance of plant			
Operation and maintenance of plant	5,073	-	5,073
Research cost centers	6,076	-	6,076
Student financial assistance	22,936	-	22,936
Auxiliary enterprises			
Hotel Roanoke	5,643	-	5,643
River Course	1,531	-	1,531
Bookstore	-	25,631	25,631
Depreciation expense	7,951	-	7,951
Other expenses	6,200	-	6,200
Total operating expenses	<u>127,244</u>	<u>25,631</u>	<u>152,875</u>
Operating income (loss)	<u>(21,134)</u>	<u>86</u>	<u>(21,048)</u>
Non-operating revenues (expenses)			
Investment income, net	8,465	-	8,465
Net loss on investments	(7,782)	-	(7,782)
Interest expense on debt related to capital assets	(8,228)	-	(8,228)
Net non-operating revenues	<u>(7,545)</u>	<u>-</u>	<u>(7,545)</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(28,679)</u>	<u>86</u>	<u>(28,593)</u>
Change in valuation of split interest agreements	553	-	553
Capital grants and gifts	12,421	-	12,421
Loss on disposal of capital assets	(874)	-	(874)
Additions to permanent endowments	18,962	-	18,962
Other expenses	(759)	-	(759)
Total other revenues, expenses, gains, or losses	<u>30,303</u>	<u>-</u>	<u>30,303</u>
Increase in net assets	<u>1,624</u>	<u>86</u>	<u>1,710</u>
Net assets — beginning of year	826,639	4,218	830,857
Net assets — end of year	<u>\$ 828,263</u>	<u>\$ 4,304</u>	<u>\$ 832,567</u>

23. Component Units (continued)

Notes to Component Units Statements

Contributions Receivable – Virginia Tech Foundation Inc.

The following summarizes unconditional promises to give at June 30, 2012 (*all dollars in thousands*):

Current receivables

Receivable in less than one year	\$ 31,044
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Noncurrent receivables

Receivable in one to five years	38,591
Receivable in more than five years	13,044
Total noncurrent receivables before allowance	51,635
Less allowance for uncollectible contributions	(3,179)
Net noncurrent contributions receivable	48,456
Total contributions receivable	<u>\$ 79,500</u>

The discount rates ranged from 0.32% to 1.50% in 2012. As of June 30, 2012, there were no conditional promises to give.

Investments – Virginia Tech Foundation Inc.

Investments by type of security at June 30, 2012 (*all dollars in thousands*):

	Cost	Fair Value
Short-term investments		
Corporate debt securities	\$ 2,219	\$ 2,105
U.S. Government treasuries	943	1,209
U.S. Government agencies	2,686	2,690
Total short-term investments	<u>5,848</u>	<u>6,004</u>

Long-term investments

Cash and cash equivalents	17,358	17,358
U. S. Government treasuries	6,015	6,174
U. S. Government agencies	25,534	26,285
State, county, municipal securities	2,869	2,970
Corporate debt securities	34,646	30,342
Common and preferred stock	142,514	168,903
Mortgage receivable	1,749	1,622
Partnerships and other ventures	352,051	383,202
Foreign securities	10,219	9,244
Real estate	26,961	28,024
Other	7,504	7,504
Total long-term investments	<u>627,420</u>	<u>681,628</u>

Restricted to investment in land, buildings and equipment

Cash and cash equivalents	26,295	26,295
U.S. government agencies	2,274	2,248
Total restricted investments	<u>28,569</u>	<u>28,543</u>
Total investments	<u>\$ 661,837</u>	<u>\$ 716,175</u>

As of June 30, 2012, long-term investments include investment assets held in internally managed trust funds with a carrying value totaling \$38,459,000.

The foundation has invested in a communications network infrastructure. Included in other long-term investments as of June 30, 2012, is \$6,400,000 related to this communications network infrastructure.

The following tabulation summarizes changes in relationships between cost and fair value of investments (*all dollars in thousands*):

	Fair Value	Cost	Net gains (losses)
June 30, 2012	\$ 716,175	\$ 661,837	\$ 54,338
June 30, 2011	717,856	648,819	<u>69,037</u>

Unrealized net loss for the year, including net gain on agency deposits held in trust of \$636	(14,699)
Realized net gain for the year, including net loss on agency deposits held in trust of (\$1,434)	6,043
Total net loss for the year, including net loss on agency deposits held in trust of (\$798).	<u>\$ (8,656)</u>

Investment management fees incurred in 2012 totaled \$1,441,000

Land, Buildings and Equipment - Virginia Tech Foundation Inc.

A summary of land, buildings and equipment at cost, less accumulated depreciation for the year ending June 30, 2012 is presented as follows (*all dollars in thousands*):

Depreciable capital assets

Buildings	\$ 207,353
Equipment and other	23,541
Land improvements	15,672
Total depreciable capital assets, at cost	246,566
Less accumulated depreciation	(73,977)
Total depreciable capital assets, net	<u>172,589</u>

Nondepreciable capital assets

Land	65,597
Vintage and other collection items	4,952
Livestock	2,067
Construction in progress	42,653
Total nondepreciable capital assets	115,269
Total capital assets, net	<u>\$ 287,858</u>

As of June 30, 2012, outstanding contractual commitments for projects under construction approximated \$25,600,000.

Long-term Debt Payable - Virginia Tech Foundation Inc.

Notes payable

The following is a summary of outstanding notes payable at June 30, 2012 (*all dollars in thousands*):

Secured variable rate promissory note payable upon sale of collateral, or receipt of any insurance payment due to destruction of collateral, plus interest at the LIBOR rate plus 300 basis points (3.25% at June 30, 2012) collateralized by interest in a Citation Excel airplane	\$ 617
Total VTF notes payable	<u>617</u>

Unsecured note payable upon the sale of the hotel and repayment of all debt of the hotel and the Hotel Roanoke Foundation (HRF)	1,775
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Unsecured note payable to the City of Roanoke Redevelopment and Housing Authority due in aggregate annual installments of \$497, interest at 4.05%, guaranteed by the U.S. Department of Housing and Urban Development, maturing June 30, 2014	1,377
Total HRF notes payable	<u>3,152</u>

Secured fixed rate promissory note payable due October 10, 2017, plus interest at 7.00%, collateralized by certain real properties by Virginia Tech Real Estate Foundation, Inc. (VTREF)	8,063
Total VTREF notes payable	8,063
Total notes payable	<u>\$ 11,832</u>

During 2003, the foundation used proceeds from borrowings on notes payable totaling \$13,800,000 to provide a loan to an unrelated party through a promissory note receivable. The unrelated party used the proceeds to purchase the University Mall building located in Blacksburg, Virginia. The promissory note receivable, which requires interest payments only until maturity, earns interest at a fixed rate of 6.18% through June 30, 2013 and 6.96% thereafter through June 30, 2023, the maturity date. The promissory note receivable is secured by a first deed of trust in the real property of the University Mall building, as well as the assignment of leases and rents, security agreements and fixture filing statements.

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2012, are (*all dollars in thousands*):

2013	\$	984
2014		568
2015		97
2016		103
2017		112
Later years or as cash becomes available from hotel net operating income		9,968
Total notes payable	\$	<u>11,832</u>

Bonds payable

HRF is obligated under City of Roanoke Redevelopment and Housing Authority Taxable Redevelopment Revenue Term Bonds (Series 1998). Bond proceeds were used to prepay the first mortgage notes payable to a lender group and provide long-term financing for the renovation of the Hotel Roanoke. On June 1, 2003, the bonds were remarketed to VTREF and the new term rate of 4.10% extended through May 31, 2008. On June 1, 2008, the bonds were remarketed and the new term rate of 5.00% will extend through May 31, 2013. The Term Bonds are subject to mandatory annual sinking fund redemption through 2018 in varying amounts ranging from \$330,000 to \$490,000 and are guaranteed by Hotel Roanoke, LLC. The Term Bonds are eliminated for consolidation purposes as of June 30, 2012.

The foundation is obligated under Industrial Development Authority of Craig County, Virginia Variable Rate Demand Revenue Refunding Bonds (Series 2000). Bond proceeds were used to finance the construction of office facilities and laboratory space leased to the university. The Series 2000 bonds, which were to mature on November 1, 2020, bore a fixed interest rate of 3.55%. These bonds were refinanced in November 2011 in connection with the 2011 foundation bond offering discussed below.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds dated August 25, 2005 (Series 2005). Bond proceeds were used to refinance previously outstanding Series 2001A and Series 2002A bonds. The remainder was used to finance the construction of and equipment purchases for three facilities to be used in support of the university. The bonds, which mature June 1, 2035, bear a variable interest rate, which including remarketing and credit enhancement fees, was 0.535% at June 30, 2012.

The foundation is obligated under Industrial Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2009A) and Taxable Revenue Bonds (Series 2009B) dated February 12, 2009. Bond proceeds were used to refinance the previously outstanding Series 2007 bonds, the unsecured variable rate promissory note payable, and the unsecured variable rate commercial

note payable, as well as finance the construction of several facilities, primarily for the National Capital Region facility, to be used in support of the university. During 2012, an additional \$3,860,000 was requisitioned on the Series 2009A bonds to finance property acquisitions to be used in support of the university. The Series 2009A bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.645% on June 30, 2012. The Series 2009B bonds, which mature on February 1, 2039, bear a variable interest rate, which including remarketing and liquidity fees, was 0.725% on June 30, 2012.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue Refunding Bonds (Series 2010A) and Taxable Revenue Refunding Bonds (Series 2010B) dated August 3, 2010. Proceeds were used to refinance a portion of the outstanding Series 2009A, Series 2009B and Series 2005 bonds and to retire certain interest rate swaps. The bonds, which bear a weighted average fixed interest rate of 4.23%, have annual serial and sinking fund maturities beginning June 1, 2011 and concluding June 1, 2039 in varying amounts ranging from \$1,320,000 to \$3,450,000.

The foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2011A) and Taxable Revenue and Refunding Bonds (Series 2011B) dated November 17, 2011. Proceeds were used to refinance all or a portion of the outstanding Series 2000, Series 2005, Series 2009A and Series 2009B bonds, two notes payable, retire certain interest rate swaps, as well as finance the construction of several commercial facilities and several facilities to be used in support of the university. The bonds, which bear a weighted average fixed interest rate of 3.69% and 4.03%, have annual serial and sinking fund maturities beginning June 1, 2012 and concluding June 1, 2039 in varying amounts ranging from \$1,505,000 to \$5,200,000.

As of June 30, 2012, the majority of the unused proceeds from the Series 2011A and Series 2011B bond offering, which are restricted to investment in land, buildings and equipment, have been temporarily invested in investment securities as disclosed in the investment note and are separately recorded in the consolidated statement of financial position.

Principal amounts outstanding for these bonds as of June 30, 2012 are as follows (*all dollars in thousands*):

Series 2005	\$	25,230
Series 2009A		21,935
Series 2009B		1,120
Series 2010A		51,595
Series 2010B		21,650
Series 2011A		52,345
Series 2011B		59,720
Premium on Series 2010A		3,583
Premium on Series 2011A		2,451
Total bonds payable	\$	<u>239,629</u>

The aggregate annual maturities of bonds payable for each of the five years and thereafter subsequent to June 30, 2012, are as follows (*all dollars in thousands*):

2013	\$	8,139
2014		10,308
2015		9,611
2016		9,834
2017		10,120
Later years		191,617
Total	\$	<u>239,629</u>

23. Component Units (continued)

To comply with the terms of the Series 2005 bond agreement, the foundation maintains a letter of credit with a lender in the amount of \$25,472,000 at annual fees equal to 0.20% of the total commitment. At June 30, 2012, no funds were outstanding under this commitment.

To comply with the terms of the Series 2009A and Series 2009B bond agreement, the foundation maintains a revolving credit facility in the amount of \$36,000,000 at annual fees equal to 0.35% of the total commitment. At June 30, 2012, no funds were outstanding under this commitment.

Interest Rate Swaps

Effective September 1, 2005, the foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. This agreement was based on the principal balances (notional amount of \$16,360,000) of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds. The foundation participates as a fixed rate payer, with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.169% at June 30, 2012. The change in fair value of Swap 1 was a loss of approximately \$601,000 for fiscal year 2012. The fair value of the interest rate swap agreement approximated \$2,161,000 in favor of the lending institution as of June 30, 2012.

Effective September 1, 2005, the foundation entered into two separate interest rate swap agreements (Swap 2) with a lending institution. These agreements were based on the principal balances (notional amounts of \$9,715,000) for the Series 2005 bond issue and were effective September 1, 2006. The foundation participates as a fixed rate payer, with a fixed rate of 3.213% ending June 1, 2025. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA and was 0.169% at June 30, 2012. The change in fair value of Swap 2 was a loss of approximately \$645,000 for fiscal year 2012. The fair value of the interest rate swap agreements approximated \$1,520,000 in favor of the lending institution as of June 30, 2012.

Effective March 12, 2007, the foundation entered into two separate interest rate swap agreements (Swap 3) with a lending institution. These agreements were based on the principal balances (notional amounts of \$15,830,000) of the Series 2007 bond issue. The foundation participates as a fixed rate payer, with a fixed rate of 3.737% and 3.467% ending June 1, 2027 and June 1, 2012, respectively. The lending institution participates as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of USD-BMA Municipal Swap Index and was 0.182% at June 30, 2012. The change in fair value of Swap 3 was a loss of approximately \$1,204,000 for fiscal year 2012. The fair value of the interest rate swap agreements approximated \$2,916,000 in favor of the lending institution as of June 30, 2012.

Effective April 1, 2009, the foundation entered into three separate interest rate swap agreements (Swap 4) with two lending institutions. Two of these agreements were terminated in June 2011. The third agreement is based on principal balances (notional amounts of \$15,830,000) for Series 2009A and Series 2009B bond issue. The foundation participates as a floating rate payer, with a floating

interest rate, which is calculated on the weighted average of USD-SIFMA Municipal Swap Index, with a rate of 0.180% as of June 30, 2012, ending June 1, 2027. The lending institutions participate as a floating rate payer, with a floating interest rate, which is calculated based on the weighted average of 90.10% of USD-LIBOR-BBA and was 0.421% at June 30, 2012. The change in fair value of Swap 4 was a loss of approximately \$257,000 for fiscal year 2012. The fair value of the interest rate swap agreements approximated \$96,000 in favor of the foundation as of June 30, 2012.

The following table summarizes the fair values of the foundation's interest rate swaps and changes in the fair values of the swaps (*all dollars in thousands*):

	Fair Value	Change in Fair Value
Swap 1	\$ 2,161	\$ 601
Swap 2	1,520	645
Swap 3	2,916	1,204
Swap 4	(96)	257
Total	<u>\$ 6,501</u>	<u>\$ 2,707</u>

Total interest expense incurred in the aggregate related to notes payable and bonds payable in 2012 totaled \$8,105,000.

Related Party Transactions - Virginia Tech Foundation Inc.

The foundation, as a lender, has entered into four lines of credit with Virginia Tech Applied Research Corporation (VT-ARC) as borrower. These lines of credit are used to temporarily fund facility construction and operations. The total line of credit available was \$8,500,000, of which \$6,250,000 was outstanding at June 30, 2012.

Agency Deposits Held in Trust - Virginia Tech Foundation Inc.

Under an agreement between the university and the foundation, the foundation serves as agent in connection with the investment, management and administration of the Pratt Estate Funds and Donaldson Brown Endowment Funds. In addition, the foundation serves as agent and maintains investments for the Virginia Tech Alumni Association Inc., Virginia Tech Services Inc. and certain other associations.

A summary of agency deposits held in trust for the year ending June 30, 2012 is presented as follows (*all dollars in thousands*):

University—Pratt Estate	\$ 37,813
University—other	14,851
Virginia Tech Alumni Association Inc.	3,650
Virginia Tech Services Inc.	3,059
Other	4,612
Total agency deposits held in trust	<u>\$ 63,985</u>

24. Risk Management and Employee Health Care Plans

The university is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The university participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, boiler and machinery, and air and watercraft plans. The university pays premiums to the Commonwealth of

Virginia for the aforementioned insurance coverage. In addition, the university contracts with private insurers to provide additional fidelity bonding coverage, automobile physical damage coverage, business interruption coverage for the Equine Medical Center and overseas liability coverage. Information relating to the commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

25. Joint Ventures

The Hotel Roanoke Conference Center Commission was created by a joint resolution of the university and the City of Roanoke. The purpose of the commission is to establish and operate a publicly owned conference center in Roanoke adjacent to the renovated Hotel Roanoke. The powers of the commission are vested in commissioners. Each participating governing body appoints three commissioners for a total of six commissioners. The commission has the authority to issue debt, and such debt is the responsibility of the commission. The intention of the commission is to be self-supporting through its user fees. The university and the City of Roanoke equally share in any operating deficit or additional funding needed for capital expenditures. The university made contributions of \$80,000 using private funds to the commission for the fiscal year ended June 30, 2012.

26. Jointly Governed Organizations

Blacksburg-Christiansburg & VPI Water Authority

Created by a concurrent resolution of the university and the towns of Blacksburg and Christiansburg, the authority operates and maintains the water supply system for the university and the other participating governing bodies. A five-member board governs the authority with one member appointed by each governing body and two at-large members appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid \$745,000 to the authority for the purchase of water for the fiscal year ended June 30, 2012.

Blacksburg-VPI Sanitation Authority

Created by a concurrent resolution of the university and the town of Blacksburg, the authority operates and maintains the wastewater treatment system for the participating governing bodies. Each participating governing body appoints one member of the five-member board of directors. Three at-large members are appointed by the joint resolution of each of the governing bodies. The authority's indebtedness is not an obligation of the university and is payable solely from the revenues of the authority. The university paid \$698,000 to the authority for the purchase of sewer services for the fiscal year ended June 30, 2012.

Montgomery Regional Solid Waste Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, the authority represents its members in solid waste and recycling issues as well as operating a recycling facility. The authority is governed by its board with each participating governing body appointing one board member, and all governing bodies jointly appointing the fifth at-large member. Each governing body provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the authority for disposal of the waste, and the processing and marketing of the recyclables. All indebtedness is the obligation of the authority and payable from its revenues. The university paid \$194,000 to the authority for tipping fees for the fiscal year ended June 30, 2012.

Virginia Tech/Montgomery Regional Airport Authority

Created by a joint resolution of the university, the towns of Blacksburg and Christiansburg, and the county of Montgomery, this authority serves to develop a regional airport based on the mission of servicing corporate executive markets and other general aviation markets; obtaining grants, loans and other funding for airport improvements and other activities; and in promoting and assisting in regional economic development. The authority is governed by its board, which consists of five members. Each participating governing body appoints one member of the board, and jointly all governing bodies appoint the fifth member. All indebtedness is the obligation of the authority and payable

from its revenues. The university's funding commitment for fiscal year 2012 was \$50,000, all of which Virginia Tech paid to the authority.

27. Pending Litigation

The university has been named as a defendant in a number of lawsuits. The final outcome of the lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the university may be exposed will not have a material effect upon the university's financial position.

28. Subsequent Events

The university has secured short-term financing for capital projects through the Virginia Municipal League/Virginia Association of Counties (VML/VACo) commercial paper program. The university makes monthly draws from this program to meet capital project funding requirements. As of September 30, 2012 the university has a total balance of commercial paper outstanding of \$13,300,000.

The Virginia College Building Authority (VCBA) will issue Series 2012 9(d) bonds in November 2012 through the Pooled Bond Program and will use the proceeds from the bond issue to purchase university debt obligations (notes). University notes funded by VCBA will be used to provide financing for the construction of the Veterinary Medicine Instruction addition (\$10,800,000) and the refunding of \$33,715,000 of Series 2004D Athletic Facilities System and General Revenue Pledge bonds.

Supplementary Information

Virginia Tech Foundation Inc.

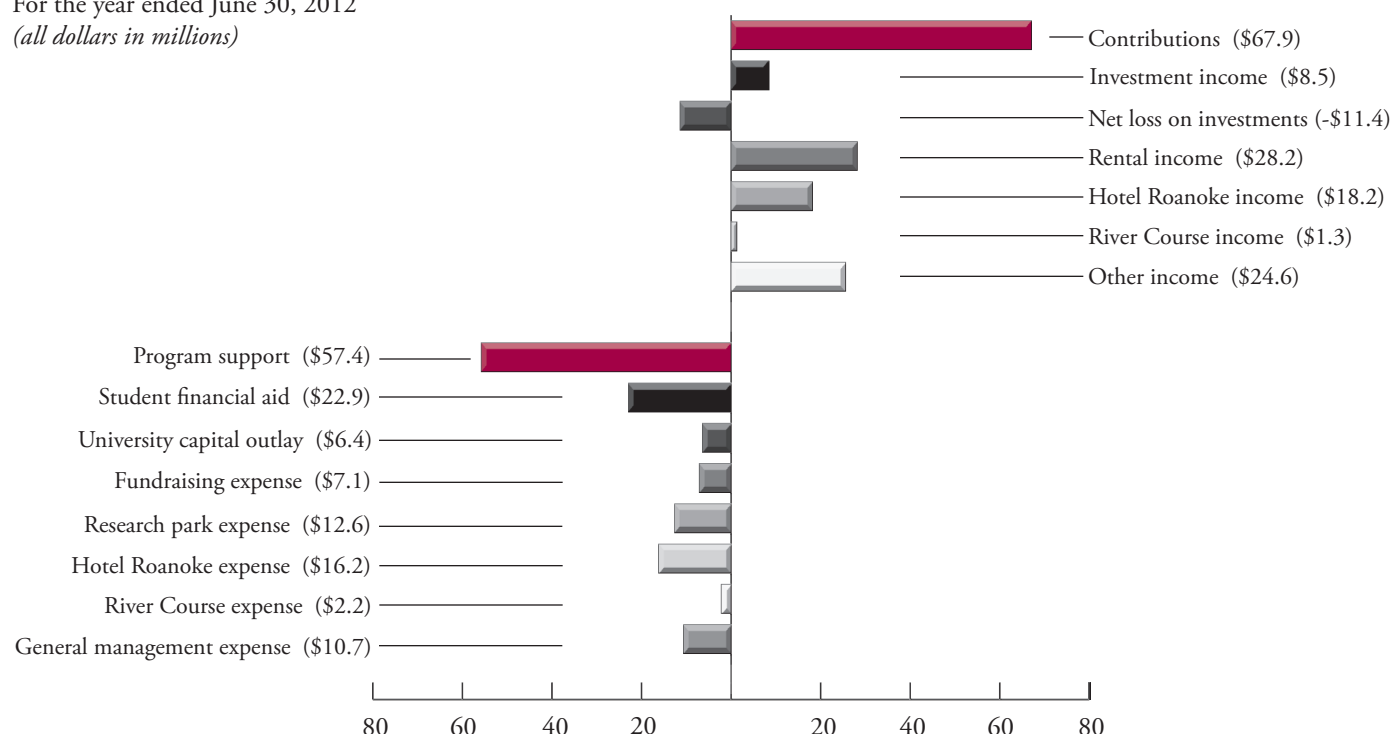
The purpose of Virginia Tech Foundation Inc. is to receive, invest and manage private funds given for the support of programs at Virginia Tech and to foster and promote the growth, progress and general welfare of the university. During the current fiscal year, the foundation recognized \$67.9 million in contributions for support of the university. Investment income of \$8.5 million, along with net losses on investments of \$11.4 million, resulted in a \$2.9 million net

loss on investment activity. Property rental, hotel operating, and golf course income totaled \$47.7 million. Other income accounted for \$24.6 million. Total income of \$137.3 million was offset by \$135.5 million in expenses that supported the university and its programs. Direct support to various university programs aggregated \$86.8 million, which included \$22.9 million in scholarship support to students and faculty and \$6.4 million towards university capital

projects. Additional expenses such as fundraising, management and general, research center, hotel operating, golf course, and other costs totaled \$48.7 million. Total net assets after taxes increased by \$1.6 million over the previous year. The graphs below are categorized as presented in the audited financial statements for the foundation which follows the Financial Accounting Standards Board (FASB) presentation requirements.

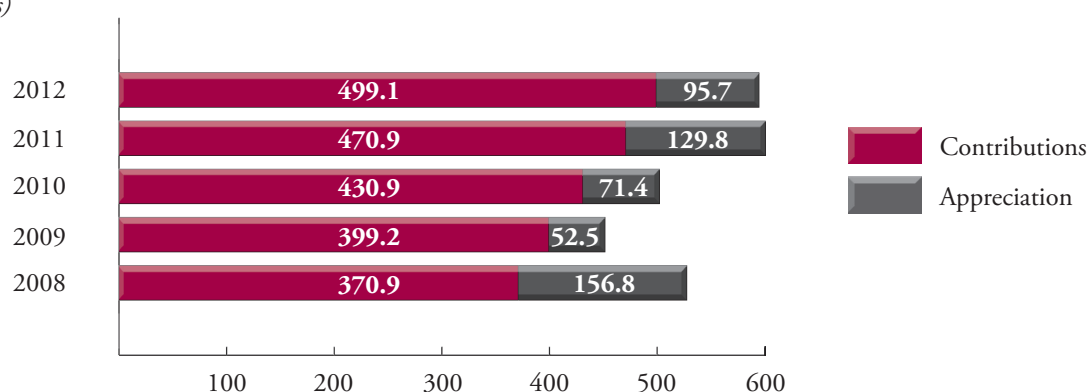
Virginia Tech Foundation Inc. Revenues, Expenses, Gains and Losses

For the year ended June 30, 2012
(all dollars in millions)



Virginia Tech Foundation Inc. Endowment Market Value*

For the year ended June 30, 2012
(all dollars in millions)



*Market value of Endowment Funds includes agency deposits held in trust of \$64.0 million.
(Source: Virginia Tech Investment Managers, unaudited)

Affiliated Corporations Financial Highlights

For the years ended June 30, 2012-2008
(all dollars in thousands)

	2012	2011	2010	2009	2008
Assets					
Virginia Tech Foundation Inc.	\$ 1,210,709	\$ 1,155,100	\$ 1,023,604	\$ 942,103	\$ 925,994
Virginia Tech Services Inc.	11,101	11,815	12,549	12,607	13,021
Virginia Tech Intellectual Properties, Inc.	2,073	1,053	2,283	1,012	1,035
Total Assets	<u>\$ 1,223,883</u>	<u>\$ 1,167,968</u>	<u>\$ 1,038,436</u>	<u>\$ 955,722</u>	<u>\$ 940,050</u>
Revenues					
Virginia Tech Foundation Inc.	\$ 137,299	\$ 242,235	\$ 183,748	\$ 54,884	\$ 145,715
Virginia Tech Services Inc.	25,717	27,523	26,427	27,800	29,917
Virginia Tech Intellectual Properties Inc.	1,998	2,058	2,522	1,873	1,183
Total Revenues	<u>\$ 165,014</u>	<u>\$ 271,816</u>	<u>\$ 212,697</u>	<u>\$ 84,557</u>	<u>\$ 176,815</u>
Expenses					
Virginia Tech Foundation Inc.	\$ 134,916	\$ 118,979	\$ 124,365	\$ 136,313	\$ 130,894
Virginia Tech Services Inc.	25,631	27,513	26,384	27,865	29,607
Virginia Tech Intellectual Properties Inc.	1,954	2,276	1,911	1,841	1,558
Total Expenses	<u>\$ 162,501</u>	<u>\$ 148,768</u>	<u>\$ 152,660</u>	<u>\$ 166,019</u>	<u>\$ 162,059</u>

The organizations included above are related to the university by affiliation agreements. These agreements, approved by the Virginia Tech Board of Visitors, require an annual audit to be performed by independent auditors. These auditors have examined the financial records of the organizations presented in the table above and copies of their audit reports have been provided to the university. Values presented in this table are based solely upon these audit reports and do not include any consolidation entries to alter these amounts. Affiliated organizations that hold no financial assets and certify all financial activities or transactions through the Virginia Tech Foundation Inc. may be exempt from the independent audit requirement. The Virginia Tech Athletic Fund Inc., the Virginia Tech Corps of Cadets Alumni Inc. and the Virginia Tech Alumni Association meet exemption requirements and are not presented separately in this table.

The Virginia Tech Applied Research Corporation (VT-ARC), a non-profit organization affiliated with Virginia Tech, performs translational and applied research and development as an extension of the basic and scholarly research performed within the university. VT-ARC is considered a development stage corporation formed in December 2009 and has not yet produced significant revenue. Net operating expenses incurred during the development stage are approximately \$4.2 million. An ongoing audit of VT-ARC assets, revenues and expenses is expected to be complete in mid-December 2012.

Consolidating Schedule of Net Assets

As of June 30, 2012

(all dollars in thousands)

	Current Funds		Loan	Endowment	Agency	Plant	
	Unrestricted	Restricted	Funds	& Similar Funds	Funds	Funds	Total
ASSETS							
Current assets							
Cash and cash equivalents	\$ 261,245	\$ 18,715	\$ 1,718	\$ (1)	\$ 7,242	\$ -	\$ 288,919
Short-term investments	2,410	-	-	-	-	-	2,410
Accounts receivable	9,119	44,415	1	-	-	-	53,535
Notes receivable	-	-	1,743	-	-	-	1,743
Due from Commonwealth of Virginia	10,885	-	-	-	-	-	10,885
Inventories	15,313	-	-	-	-	-	15,313
Prepaid expenses	15,788	260	-	-	-	-	16,048
Other current assets	-	-	-	-	-	-	-
Due to (from) other funds	2,952	8,184	(70)	(206)	-	(10,860)	-
Total current assets	317,712	71,574	3,392	(207)	7,242	(10,860)	388,853
Noncurrent assets							
Cash and cash equivalents	-	-	-	-	-	141,268	141,268
Due from Commonwealth of Virginia	-	-	-	-	-	4,157	4,157
Accounts receivable	-	-	-	-	-	3,918	3,918
Notes receivable	-	-	13,771	-	-	-	13,771
Long-term investments	81,482	-	-	45,467	-	25,454	152,403
Depreciable capital assets, net	-	-	-	-	-	1,032,837	1,032,837
Nondepreciable capital assets	-	-	-	-	-	306,722	306,722
Other assets	2,068	-	-	-	-	-	2,068
Total noncurrent assets	83,550	-	13,771	45,467	-	1,514,356	1,657,144
Total assets	401,262	71,574	17,163	45,260	7,242	1,503,496	2,045,997
LIABILITIES							
Current liabilities							
Accounts payable	77,874	17,723	1	-	726	45,462	141,786
Accrued compensated absences	17,198	3,518	-	-	-	-	20,716
Deferred revenue	23,345	16,784	-	-	-	-	40,129
Funds held in custody for others	-	-	-	-	6,516	-	6,516
Commercial paper	-	-	-	-	-	13,300	13,300
Long-term debt payable	-	-	-	-	-	23,654	23,654
Total current liabilities	118,417	38,025	1	-	7,242	82,416	246,101
Noncurrent liabilities							
Accrued compensated absences	14,689	3,005	-	-	-	-	17,694
Federal loan program contributions	-	-	13,501	-	-	-	13,501
Long-term debt payable	-	-	-	-	-	477,250	477,250
Other liabilities	2,508	-	-	-	-	-	2,508
Total noncurrent liabilities	17,197	3,005	13,501	-	-	477,250	510,953
Total liabilities	135,614	41,030	13,502	-	7,242	559,666	757,054
Net assets							
Invested in capital assets, net	-	-	-	-	-	867,314	867,314
Restricted, nonexpendable	-	-	-	364	-	-	364
Restricted, expendable							
Scholarships, research, instruction	-	30,544	3,661	44,896	-	-	79,101
Capital projects	-	-	-	-	-	20,302	20,302
Debt service	-	-	-	-	-	56,214	56,214
Unrestricted	265,648	-	-	-	-	-	265,648
Total net assets	\$ 265,648	\$ 30,544	\$ 3,661	\$ 45,260	\$ -	\$ 943,830	\$ 1,288,943

Consolidating Schedule of Revenues, Expenses and Changes in Net Assets

For the year ended June 30, 2012

(all dollars in thousands)

	Current Funds		Loan	Endowment	Plant	Total
	Unrestricted	Restricted	Funds	& Similar Funds	Funds	
Operating revenues						
Student tuition and fees	\$ 335,692	\$ 1,842	\$ -	\$ -	\$ -	\$ 337,534
Federal appropriations	-	15,047	-	-	-	15,047
Federal grants and contracts	43,580	148,142	-	-	771	192,493
Federal ARRA grants and contracts	-	7,348	-	-	-	7,348
State grants and contracts	736	11,546	-	-	-	12,282
Local grants and contracts	222	13,544	-	-	-	13,766
Nongovernmental grants and contracts	5,054	27,072	-	-	-	32,126
Sales and services, educational departments	14,412	51	-	-	-	14,463
Auxiliary enterprise revenue	201,796	-	-	-	-	201,796
Other operating revenues	4,379	1,080	57	-	-	5,516
Total operating revenues	605,871	225,672	57	-	771	832,371
Operating expenses						
Instruction	253,445	6,704	-	-	-	260,149
Research	94,339	186,068	-	-	-	280,407
Public service	41,737	44,056	-	-	-	85,793
Academic support	63,177	1,847	-	-	-	65,024
Student services	12,284	1,022	-	-	-	13,306
Institutional support	47,701	4,793	-	-	-	52,494
Operation and maintenance of plant	60,513	14	-	-	8,753	69,280
Student financial assistance	96	12,805	-	-	-	12,901
Auxiliary enterprises	159,564	-	-	-	-	159,564
Depreciation and amortization	-	-	-	-	77,240	77,240
Other operating expenses	-	-	147	-	-	147
Total operating expenses	732,856	257,309	147	-	85,993	1,076,305
Operating loss	(126,985)	(31,637)	(90)	-	(85,222)	(243,934)
Non-operating revenues (expenses)						
State appropriation	196,729	22,646	-	-	-	219,375
Gifts	13,233	40,736	11	-	-	53,980
Non-operating grants and contracts	-	2,973	-	-	-	2,973
Federal student financial aid (PELL)	-	16,921	-	-	-	16,921
Fiscal stabilization (ARRA)	-	3,468	-	-	-	3,468
Investment income, net	926	(764)	1	(557)	398	4
Other additions and deductions	-	-	-	-	424	424
Nongeneral fund reversion	(1,422)	-	-	-	-	(1,422)
Interest expense on debt for capital assets	(6)	-	-	-	(16,419)	(16,425)
Net non-operating revenues	209,460	85,980	12	(557)	(15,597)	279,298
Income (loss) before other revenues expenses, gains or losses	82,475	54,343	(78)	(557)	(100,819)	35,364
Capital grants and gifts	(196)	2,552	-	-	75,639	77,995
Loss on disposal of capital assets	-	-	-	-	(1,317)	(1,317)
Total other revenues, expenses	(196)	2,552	-	-	74,322	76,678
Change in net assets before transfers	82,279	56,895	(78)	(557)	(26,497)	112,042
Mandatory transfers	(45,528)	-	-	-	45,528	-
Non-mandatory transfers	(41,546)	1,133	-	(312)	40,725	-
Equipment and library book transfers	(22,159)	(6,460)	-	-	28,619	-
Scholarship allowance transfers	47,286	(47,286)	-	-	-	-
Total transfers	(61,947)	(52,613)	-	(312)	114,872	-
Change in net assets after transfers	20,332	4,282	(78)	(869)	88,375	112,042
Net assets — beginning of year	245,316	26,262	3,739	46,129	855,455	1,176,901
Net assets — end of year	\$ 265,648	\$ 30,544	\$ 3,661	\$ 45,260	\$ 943,830	\$ 1,288,943

Business and Financial Leadership

Vice President for Finance and Chief Financial Officer

M. Dwight Shelton Jr.

University Treasurer

Raymond D. Smoot Jr.

Vice President for Administrative Services

Sherwood G. Wilson

Associate Vice President for Facilities

Michael J. Coleman

Assistant Vice President for Finance and University Controller

Kenneth E. Miller

Director of Internal Audit

Sharon M. Kurek

Associate Treasurer

John J. Cusimano

Financial report prepared by
Office of the University Controller
Virginia Tech, Blacksburg, VA 24061

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